LEGAL SERVICES DIVISION

Legislative Guide

STATE TAXATION IN IOWA

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LEGISLATIVE GUIDE TO STATE TAXATION IN IOWA

Legislative Services Agency

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I. Introduction.

A. Purpose.

The purpose of this Legislative Guide is to introduce the reader to the taxes on businesses and individuals imposed by the State of Iowa. However, this Guide does not attempt to rate Iowa's taxes as to fairness or equity nor should it be used as a basis to do so.

B. Statutory References.

In this Guide, references to the Iowa Code are to the 2007 Iowa Code, unless otherwise noted; references to the Internal Revenue Code or IRC are to the Internal Revenue Code of 1986 as in effect on January 1, 2006; references to the Iowa Administrative Code are to the Administrative Code as of October 2006. Use of the abbreviation "CY" means calendar year. Use of the abbreviation "FY" in any table depicts the fiscal year which ends in the year designated, i.e., "FY 2006" means the fiscal year beginning July 1, 2005, and ending June 30, 2006. A chapter citation in a heading indicates the statutory authority for the tax, i.e., Individual Income Tax (Ch. 422, Div. II) means the state individual income tax provisions are located in chapter 422, division II, of the 2007 Iowa Code. The revenue figures generated by the various taxes and fees have been taken from the monthly spreadsheets issued by the Fiscal Services Division of the Legislative Services Agency, if available. These revenue figures do not reflect reductions due to refunds.

C. Liability for Payment of Taxes.

Not all Iowa taxes are paid by Iowa residents or Iowa businesses. Out-of-state businesses that make sales in Iowa are subject to Iowa corporate tax, nonresidents making purchases in Iowa may pay state sales tax, and resident corporations that pay sales tax may be able to "export" the amount of tax as a cost of a product sold out of state.

D. Taxation of Businesses.

Businesses are subject to a number of state taxes. The taxes can be divided into three groups. The first group of taxes is generally dependent upon the success of the business, e.g., corporate income tax, franchise tax, and insurance premiums tax. These taxes are the instruments for general business taxation in Iowa. Income from partnerships, sole proprietorships, certain limited liability companies, and S corporations is generally taxed under the personal income tax. The second group of taxes is imposed because the taxpayer or entity is a business, e.g., unemployment compensation, environment protection charge, and beer and liquor tax/markup. The third group of taxes is imposed because the business is a consumer or user, e.g., sales and use taxes, cigarette and tobacco taxes, and motor vehicle taxes.

E. Agreements With Indian Tribes.

As a result of legislation enacted during the 2000 Legislative Session, the Department of Revenue may enter into an agreement with the governing body of an Indian tribe which provides that the department will collect, distribute, or refund in Indian country any tax or fee imposed by the state and administered by the department or will collect or distribute any tax or fee imposed by tribal ordinance. The department may charge a fee for its services of

collecting or distributing a tax or fee imposed by tribal ordinance. Prior to this legislation, the department lacked authority to enter into such agreements.[1]

II. Income and Franchise Taxes.

Generally, the difference between the income tax and franchise tax as they relate to businesses is that the former is a tax related to the profitability of the business while the latter is a tax imposed for doing business in the state regardless of its profitability. Iowa's income and franchise taxes can also be differentiated in this manner. The income taxes include the individual and corporate income taxes and the franchise taxes consist of the tax on financial institutions, appropriately called the franchise tax, and the tax on insurance premiums. By subjecting financial institutions to a franchise tax for doing business in the state, Iowa is able to measure, and subject to tax, the extent of doing business in the state by including all income earned by the financial institution, including income from federal securities which is not taxable under Iowa's income tax law as a result of federal law and the doctrine of intergovernmental immunity.

A. Income Taxes.

1. Individual Income Tax (Ch. 422, Div. II).

The Iowa individual income tax was enacted in 1934 and is imposed on Iowa taxable income of individuals and estates and trusts. Taxpayers with a combined net income of $13,500 or less ($9,000 for single taxpayers) are generally not required to pay Iowa income tax or file an Iowa income tax return.[2] Legislation enacted in 2006 provides that no tax is owed if an individual is 65 years of age and has a net income of less than $24,000 if the individual is married, a head of household, or a surviving spouse, and $18,000 for all other persons. In determining the appropriate net income, retirement and pension income otherwise exempt is included. These amounts apply to the 2007 and 2008 tax years.[3] Beginning with the 2009 tax year, the amounts are increased to $32,000 and $24,000, respectively.[4] Individuals may also be subject to the alternative minimum tax and a tax on lump sum distributions from qualified retirement plans.[5]

The final return and any tax owing is due by the last day of the fourth month following the close of the tax year (April 30).[6] Income tax is also collected through withholding tax on wages. Depending on the total amount of tax withheld, withholding tax deposits by the employer or withholding agent are due quarterly, monthly, or semimonthly.[7] Individuals may be required to remit quarterly estimated tax payments if an individual's Iowa income tax is attributable to income other than wages subject to withholding.[8] Voluntary withholding of state income tax from unemployment benefits paid in 1997 and thereafter is

[1] Iowa Code § 421.47.
[2] Iowa Code §§ 422.5(2), 422.13(1A).
[3] Iowa Code § 422.5(2A).
[4] Iowa Code § 422.5(2B); for future text of subsection 2B, see 2006 Iowa Acts ch. 1112, §§ 2, 5.
[5] Iowa Code § 422.5(1)(k), (7).
[6] Iowa Code § 422.21.
[7] Iowa Code § 422.16(1), (2), (12).
[8] Iowa Code § 422.16(11).

authorized at a rate of 5 percent. An individual's election to have state income tax withheld from unemployment benefits is separate from any election to have federal income tax withheld from the benefits.[9]

Nonresidents working in Iowa are subject to the Iowa individual income tax. However, the Director of Revenue has authority to enter into reciprocal agreements with tax agencies of other states which would exempt these nonresidents from paying Iowa tax on income earned from personal services in Iowa if that state exempted Iowa residents from that state's income tax on the same type of income. Legislation enacted in the 2002 Legislative Session requires that prior to entering into such an agreement, the General Assembly and Governor must both approve the agreement. Likewise, approval of the General Assembly and the Governor is needed to terminate a reciprocal agreement.[10] As of 2002, the only state with which Iowa has a reciprocal agreement is Illinois.

a. Structure of the Iowa Individual Income Tax.

i. Tax Filing Units. Six filing units are created under Iowa law: single, married filing jointly, married filing separately on a combined return, married filing separately, head of household with a qualifying individual, and qualifying widow(er) with a dependent child. Two-earner married couples in Iowa may choose to be treated as one filing unit on a joint return or may be treated as two filing units that are taxed separately but file on a single combined return. From the married taxpayers' perspective, this adds to the complexity because of the need to compute taxes jointly and separately, with the required apportionment of income and deductions, in order to ascertain their minimum tax liability.

ii. Definition of Income and Conformity With the Federal Code. Iowa, as many states do, uses federal adjusted gross income as the starting point in the income tax calculation. This means that Iowa net income conforms to federal definitions of sources included in income as well as adjustments to gross income.[11] Each year, Iowa legislators give consideration to an "IRC update bill," which, when enacted, has the effect of adding to the Iowa income tax code all changes made in the prior year to the federal Internal Revenue Code. An IRC update bill was enacted in 2006, hence the latest updated references are made to the federal Internal Revenue Code of January 1, 2006, and are effective for tax years beginning on or after January 1, 2005.[12] References to the federal research activities credit are updated to January 1, 2006.[13] Adjustments to federal adjusted gross income, such as the standard deduction, personal exemption credit, certain itemized deductions, and tax credits, and the tax rates are determined as a matter of state public policy, independent of the federal Internal Revenue Code.

iii. Adjustments — Deduction vs. Credit. Iowa provides both deductions and credits in the computation of a taxpayer's ultimate tax liability. Before discussing

[9] Iowa Code § 96.3(10).
[10] Iowa Code § 422.8(5).
[11] Iowa Code § 422.7.
[12] Iowa Code § 422.3(5).
[13] Iowa Code §§ 15.335(4), 15A.9(8), 422.10(3).

the adjustments in subparagraphs iv and v, one must understand the difference between a deduction and a credit and the effect of each.

A deduction is a reduction in income before a tax rate is determined and applied to a taxpayer. A credit is a reduction in the tax owed after the tax rate has been determined and applied to the taxpayer and the taxpayer's tax owed has been computed. The following is a simplistic example of how this works:

- Assume the taxpayer is eligible for a $1,000 deduction or $1,000 credit for the purchase of an alternative fuel motor vehicle.
- Assume the taxpayer has taxable income of $40,000 and is subject to a 10 percent tax rate. The tax liability prior to the deduction or credit is $4,000 ($40,000 x 10 percent).
- Assume the taxpayer takes the $1,000 deduction which reduces the taxable income to $39,000 ($40,000 - $1,000). The tax liability is $3,900 ($39,000 x 10 percent) which is a savings of $100.
- Assume the taxpayer takes the $1,000 credit which is applied to reduce the tax liability from $4,000 to $3,000 which is a savings of $1,000.

iv. Adjustments to Income — Exemptions and Deductions.

(1) Exemptions and Deductions in Computing Iowa Net Income. Iowa net income, for income tax purposes, is equal to federal adjusted gross income with several Iowa income exclusions, deductions, or exemptions, including the following:[14]

- Interest and dividends from federal securities.[15]
- Interest from bonds specifically exempt, including but not limited to those issued by the Iowa Board of Regents for buildings and facilities, community colleges for residence facilities, Beginning Farmer Loan Program, Iowa Comprehensive Underground Storage Tank Fund Board, Iowa Finance Authority to fund the E911 system, rural water districts, Higher Education Loan Authority, Utilities Board for a building to house the board, and various other bonds issued by the state of Iowa and specified as exempt.[16]
- Certain capital gains involving the sale of property used in a business; sale of cattle or horses used for breeding, draft, and dairy purposes; sales of other breeding livestock; and sale of timber.
- A portion of certain disability income received.
- Payments received for providing unskilled in-home health care services to a relative.

[14] Iowa Code § 422.7.

[15] Iowa Admin. Code 701-40.2.

[16] Interest income from foreign or state bonds are generally included as income. See Iowa Code § 422.7(2); Iowa Admin. Code 701-40.3. Income from the sale of obligations of the state of Iowa and its political subdivisions are generally included as income unless specifically exempt by Iowa law. See Iowa Code § 422.7(36); Iowa Admin. Code 701-40.56.

- An amount for certain businesses which hire disabled persons or persons who have been convicted of a felony.
- Contributions to an individual development account by persons other than the taxpayer and income earned on the account.
- Amounts paid for purchase of health benefits coverage or insurance for the taxpayer or taxpayer's spouse or dependent.
- Certain contributions to the Iowa Educational Savings Plan Trust and any interest and earnings received from such trust.
- Payments received by victims of persecution for racial, ethnic, or religious reasons by Nazi Germany or other Axis powers. Payments include those for labor performed and assets stolen or confiscated.
- Additional installments from reporting of a capital gain if the taxpayer, using the accrual method of accounting, reported the entire capital gain on the 2001 Iowa return and the capital gain was reported on the installment method for federal tax purposes. For tax years beginning on or after January 1, 2002, the installment method for reporting capital gains for accrual accounting taxpayers is required for Iowa individual income tax purposes.
- The first-year bonus depreciation under IRC § 168(k)(4) for tax years ending after May 5, 2003, if the taxpayer elects to take the depreciation amount. However, such bonus depreciation for tax years ending before May 6, 2003, does not apply.
- The taxpayer may elect not to take the increased expensing allowance under IRC § 179 that was taken for federal tax purposes for tax years beginning on or after January 1, 2003.
- Gains and losses from certain distressed sales involving the forfeiture of an installment real estate contract, transfer of property in cancellation of a debt, or the exchange of property as a result of actual notice of foreclosure if the taxpayer's debt to asset ratio exceeds 90 percent prior to the transaction and net worth at the end of the tax year is less than $75,000.
- The federal work opportunity credit, alcohol fuel credit, and employer social security credit to the extent the credits increased federal adjusted gross income.
- Unreimbursed expenses, up to $10,000, incurred in donating, while alive, all or part of the taxpayer's liver, pancreas, kidney, intestine, lung, or bone marrow. The organ donation must be for immediate use in an organ transplant operation.
- Up to $2,000 for the cost of a clean fuel motor vehicle if the taxpayer was eligible for the alternative motor vehicle credit under IRC § 30B.

- Ordinary or capital gain realized from the involuntary conversion of property due to eminent domain. If the gain is not recognized because the converted property is replaced, then the deduction does not occur until the amount of the gain is subsequently realized.
- Amount paid to the Department of Veterans Affairs for purposes of providing grants under the state Injured Veterans Grant Program.
- Amount of any grant received under the state Injured Veterans Grant Program.
- Agent Orange settlement proceeds.
- Active duty pay of persons in the National Guard or military reserve for service performed on or after August 2, 1990, pursuant to military orders related to the Persian Gulf Conflict.
- Active duty pay of persons in the National Guard or military reserve who served overseas pursuant to military orders related to peacekeeping in the Bosnia-Herzegovina area (the person need not have actually served in the area), retroactive to November 21, 1995, for active duty pay received on or after that date.
- Withdrawals from qualified retirement plan accounts made during the tax year if the taxpayer or taxpayer's spouse is a member of the Iowa National Guard or reserve forces of the United States who is ordered to state military service or federal service or duty. In addition, a penalty for such withdrawals shall not be assessed by the state.
- Active duty pay received by a member of the Iowa National Guard or U.S. armed forces military reserve for service performed pursuant to military orders related to Operation Iraqi Freedom, Operation Noble Eagle, or Operation Enduring Freedom.
- Military student loan repayments received while on active duty.

(2) Retirement Income Exemption. The Iowa tax treatment of retirement income has received considerable attention over the years. Presently, at least a portion of most types of retirement income is exempt from state income taxation. The maximum amount of the deduction is $6,000 for individual return filers and $12,000 for joint filers. Married taxpayers filing separate returns are allowed a combined maximum exclusion of up to $12,000. Pension income includes income from defined benefit or defined contribution plans, annuities, individual retirement accounts (IRAs), plans maintained or contributed to by an employer or by a self-employed person as an employer, and deferred compensation plans. However, the exclusion does not apply to social security benefits.[17]

Beginning with the 1994 tax year, a distribution from a pension plan, annuity, IRA, or deferred compensation plan earned from employment or self-

[17] Iowa Code § 422.7(31); Iowa Admin. Code 701-40.47.

employment in Iowa, which is received by a nonresident of Iowa, is exempt from Iowa income tax to the extent the distribution is directly related to the documented retirement of the retiree.[18]

Also, beginning with the 1994 tax year, no more than 50 percent of social security benefits is taxable for state individual income tax purposes. Beginning with the 2007 tax year, the tax on the remaining taxable social security benefits is phased out according to the following schedule:

Tax Years:	Remaining Benefits Excluded From Tax:
2007	32 percent
2008	32 percent
2009	43 percent
2010	55 percent
2011	67 percent
2012	77 percent
2013	89 percent

Beginning with the 2014 tax year, all social security benefits are exempt from state taxation.[19]

(3) Section 1341 Benefit. If a taxpayer repays in the current tax year certain amounts of income that were subject to tax in a prior year and a tax benefit would be allowed under similar circumstances under IRC § 1341, a tax benefit is allowed on the Iowa return. The tax benefit is the reduced tax for the current tax year due to the deduction for the repaid income or the reduction in tax for the prior year or years due to exclusion of the repaid income. The reduction in tax qualifies as a refundable tax credit on the return for the current year.[20]

(4) Standard Deduction. The statutory standard deduction is $1,230 for single taxpayers and marrieds filing separately, and $3,030 for marrieds filing jointly, surviving spouses, and heads of household. Effective for tax years beginning on or after January 1, 1990, the standard deduction is to be increased, or indexed, by the cumulative standard deduction factor computed by the Department of Revenue based upon an inflation indicator. (The implicit price deflator was used for the 1990 tax year through the 1995 tax year. Beginning with the 1996 tax year the gross domestic product price deflator is used.) The cumulative standard deduction factor cannot fall below 100 percent of the statutory deduction amount.[21] For tax year 2007, the Iowa standard deduction is

[18] Iowa Code § 422.8(2); Iowa Admin. Code 701-40.45.
[19] Iowa Code § 422.7(13). Up to 85 percent of social security benefits received remains taxable for federal income tax purposes; IRC § 86.
[20] Iowa Code § 422.5(10).
[21] Iowa Code §§ 422.4(2), 422.9(1), 422.21.

$1,700 for single taxpayers and for each taxpayer if married and filing separately. The standard deduction for married taxpayers filing jointly, surviving spouse, and head of household is $4,200.

(5) Itemized Deductions. Iowa itemized deductions are the same as those allowed under federal law except that no deduction is allowed for Iowa income tax payments, and the following additional items may be deducted:

- Those adoption expenses which exceed 3 percent of net income.
- Mileage incurred by a taxpayer in volunteer work for a charitable organization.
- Certain dependent care expenses not to exceed $5,000.
- Amount of mortgage interest credit under IRC § 25 to the extent the credit decreased the amount of interest that is deductible on the federal return.[22]

(6) Federal Deductibility. Iowa law allows a deduction to each individual taxpayer for federal income tax paid during the tax year or, for accrual-basis taxpayers, the amount of federal income tax liability for the tax year equal to 100 percent of such federal income tax reduced by any refund received. However, no adjustment for federal income tax paid or refunded is allowed for a tax year in which an Iowa return was not required to be filed.[23]

The amount received during the 2001 tax year of the advanced refund of the rate reduction tax credit pursuant to federal Pub. L. No. 107-16 or received in the 2002 tax year pursuant to federal Pub. L. No. 107-16 which is attributable to the rate reduction tax credit is not to be included in determining the amount of the deduction for federal income tax paid.[24]

(7) Net Operating Loss. If after all adjustments are made, there is a net operating loss for tax years beginning after August 5, 1997, the loss may be carried back two tax years or forward for up to 20 tax years. The carryback period is three years if the taxpayer operates a small business or farm in a presidentially declared disaster area. However, the carryback period for net operating losses from farming businesses is increased to five years to the extent the losses are for tax years beginning on or after January 1, 1998.[25] For tax years beginning prior to August 6, 1997, the loss may be carried back three tax years or carried forward for up to 15 tax years.

v. Adjustments to Tax Liability — Tax Credits.

(1) Personal Exemption Credit. The Iowa personal exemption is provided in the form of a credit of $40 each for the taxpayer and spouse, $80 for a head of household, an additional $20 for taxpayers age 65 and over and for the blind, and $40 for each dependent.[26] The Iowa personal exemption credit is

[22] Iowa Code § 422.9(2).
[23] Iowa Code § 422.9(1),(2)(b); see Iowa Admin. Code 701-41.3.
[24] Iowa Code § 422.9(6)-(7).
[25] Iowa Code § 422.9(3).
[26] Iowa Code § 422.12(1).

a nonrefundable credit, i.e., if the credit is in excess of the tax liability, the taxpayer does not receive the benefit of the excess credit.

For the 2006 tax year, the federal personal exemption is scheduled to be $3,300 for the taxpayer and each dependent. An additional federal exemption amount of up to $2,000 is available to individuals who house evacuees of Hurricane Katrina. The federal exemption is taken as a deduction, as opposed to a credit, in calculating the federal tax.[27]

(2) Child and Dependent Care Credit. (effective 1990 Tax Year) The child and dependent care credit is based upon a percentage of the corresponding federal credit. The federal credit is a nonrefundable credit. The state credit is a refundable credit. The following schedule shows the state credit as a percentage of the federal child and dependent care credit allowed on the basis of Iowa net income for the tax year:

If Iowa Net Income Is:	State Credit as Allowable Percentage of Federal Credit:
Less than $10,000	75 percent
$10,000 - $19,999	65 percent
$20,000 - $24,999	55 percent
$25,000 - $34,999	50 percent
$35,000 - $39,999	40 percent
$40,000 - $44,999	30 percent
$45,000 and over	Not eligible for credit

Married persons filing separately must determine the credit based upon combined net income.[28]

(3) Earned Income Credit. (effective 1990 Tax Year) Iowa individual taxpayers are allowed an earned income credit. The credit is equal to 6.5 percent of the taxpayer's federal earned income credit amount. The state earned income credit is nonrefundable.[29] The federal earned income credit is a refundable credit.

(4) Tuition Tax Credit. (effective 1987 Tax Year) A school tuition and textbook tax credit is allowed equal to 25 percent of the first $1,000 paid for each dependent. Books or materials used for or expenses related to extracurricular activities are included in determining the amount of the credit.[30]

(5) Research Activities Credit. (effective 1985 Tax Year) Iowa taxpayers are allowed a research activities credit equal to 6.5 percent of the taxpayer's qualified expenditures for increasing research activities apportionable

[27] IRC § 151; see also 2006 U.S. Master Tax Guide.

[28] Iowa Code § 422.12C(1), (3), (4). Prior to the tax year beginning on January 1, 2006, taxpayers with net incomes of $40,000 or more were not eligible for this credit.

[29] Iowa Code § 422.12B.

[30] Iowa Code § 422.12(2). See Iowa Admin. Code 701-42.22(3) for examples of extracurricular activities.

to Iowa. Qualified research activities expenditures in Iowa are wages for qualified research services performed in Iowa, cost of supplies used in conducting qualified research in Iowa, rental or lease of personal property used in Iowa in conducting qualified research, and at least 65 percent of expenses paid by the taxpayer to a person other than an employee of the taxpayer for basic research performed in Iowa. The state credit also provides an alternative incremental method of computation which is patterned after the federal alternative incremental method. The only difference is in the percentages applied to qualified research expenses under this alternative incremental method.[31]

Double the amount of the research activities credit is provided for under the Quality Jobs Enterprise Zone Program (effective 1994), the incentives for building in enterprise zones (effective 1997), and the High Quality Job Creation Program (HQJCP) (effective June 2005). The HQJCP replaced the New Jobs and Income Program, which was in effect from 1994 through June 2005, and the New Capital Investment Program, which was in effect from 2003 through June 2005. Under the HQJCP, a business must be approved by the Department of Economic Development and must meet certain criteria.

Effective July 1, 2005, an additional $1 million in research activities credit under the HQJCP is available for expenses related to the development and deployment of innovative renewable energy generation components manufactured or assembled in Iowa. These expenses are not eligible for purposes of the federal research activities credit. A business eligible for this additional credit must be approved by the Department of Economic Development. See the Investment Tax Credit following for a further discussion of the HQJCP.[32]

The credits described in this subparagraph may be refunded or may be credited against the tax of the taxpayer for the following year.

(6) New Jobs Tax Credit. (effective 1985) The new jobs tax credit is available to a taxpayer who has entered into an agreement as part of a new jobs training project under Code chapter 260E and has increased employment by at least 10 percent. The credit is equal to 6 percent of the taxable wages paid to employees in new jobs or jobs directly related to new jobs for the taxable year in which the taxpayer elects to take the credit. An Iowa new jobs credit that exceeds the amount of the taxpayer's liability may be carried forward for up to 10 years. [33]

(7) Investment Tax Credit. An investment tax credit is available to a taxpayer equal to an amount of up to 10 percent of the new investment directly related to new jobs created or buildings constructed by eligible businesses, including farmers' cooperatives primarily involved in the production of value-added products, under the Department of Economic Development's New Jobs

[31] Iowa Code §§ 422.10, 422.33(5); IRC § 41(c)(4)(A).
[32] Iowa Code §§ 15.335, 15.335A, 15A.9(8), 15E.196(4).
[33] Iowa Code § 422.11A.

and Income Program (effective beginning 1994 through June 2005), for eligible businesses under the New Capital Investment Program (effective beginning 2003 through June 2005), or for eligible businesses locating in, developing in, or providing housing assistance in city or county designated enterprise zones (effective beginning 1997).[34]

The New Jobs and Income Program and the New Capital Investment Program were replaced with the HQJCP. Under the new program, a nonservice, nonretail business may be eligible to receive incentives if a certain number of listed criteria are met. These criteria relate to the amount of qualifying investment, whether the business has been relocated, the types of benefits provided to employees, the type of goods produced or manufactured, the amount of pretax profits invested in research and development, the amount of pretax profits invested in worker training and skills enhancement, whether an active productivity and safety improvement program is in place, and facility specifications. In determining eligibility under the program, the Department of Economic Development must consider a variety of factors, including the quality of the jobs to be created, the impact of the proposed project on other businesses in competition with the business being considered, the impact to the state of the proposed project, efforts to hire workers of acquired or merged companies, preferences for hiring residents of the state, and whether known required environmental permits have been issued and regulations met. However, the Department of Economic Development may waive any requirements of the program for good cause.

An eligible business must enter into an agreement with the Department of Economic Development prior to receiving incentives under the program.

For purposes of the new program, the tax credits of the replaced programs are retained. These include the research activities credit, the sales and use tax refund, the corporate tax credit for certain sales taxes paid by third-party developers, the investment tax credit, the insurance premium tax credit, and the property tax exemption. Various levels of these incentives are provided under the HQJCP based on the number of new high quality jobs created and the amount of the qualifying investment made. A qualifying investment is a capital investment in real property, including the purchase price of land and existing buildings and structures, site preparation, improvements to the real property, building construction, and long-term lease costs. Qualifying investment also means a capital investment in depreciable assets. A recipient of incentives under the HQJCP cannot receive any wage-benefits tax credits. A waiver process provides for a project-specific waiver from the average county wage calculations. Each calendar year, the Department of Economic Development cannot approve more than $3.6 million worth of investment tax credits and insurance premium tax credits for projects with qualifying investments of less

[34] Iowa Code §§ 15E.193B(6), 15E.196(3), 422.11F(2).

than $1 million. These credits are effective for tax years ending on or after June 9, 2005.[35]

(8) Historic Preservation and Cultural and Entertainment District Tax Credit.[36] (effective July 1, 2000) A taxpayer may receive a tax credit equal to 25 percent of the rehabilitation costs[37] of rehabilitating properties eligible to be listed on the National Register of Historic Places, historic properties in areas eligible to be designated local historic districts, local landmarks, or barns constructed prior to 1937. In the case of commercial property, rehabilitation costs must equal at least 50 percent of the assessed value of the property, excluding the land, prior to rehabilitation. In the case of residential property or barns, the rehabilitation costs must equal at least $25,000 or 25 percent of the fair market value, excluding the land, prior to rehabilitation, whichever is less.[38] In addition, the rehabilitation project must be approved by the State Historic Preservation Office of the Department of Cultural Affairs.[39]

Originally, only $2.4 million in tax credits under the individual and corporate income taxes, the franchise tax, and the insurance premiums tax could be approved in a fiscal year, with credit certificates issued on the basis of the earliest awarding of certificates of completion. For the fiscal period beginning with FY 2006 and ending with FY 2015, an additional $4 million in tax credits may be approved for rehabilitation projects located in cultural and entertainment districts certified by the Department of Cultural Affairs.[40] The tax credits are partially refundable and, in most cases, may be transferred to another taxpayer.[41]

(9) Assistive Device Tax Credit. (effective 2000 Tax Year) A taxpayer who operates a small business is allowed a tax credit equal to 50 percent of the first $5,000 paid for the purchase, rental, or modification of an assistive device[42] or for the renovation of the workplace for an individual with a disability. The credit is refundable. A small business is one that either had gross receipts in the preceding tax year of $3 million or less or employed not more than 14 full-time employees during its preceding tax year. Only $500,000 in combined individual and corporate income tax credits is allowed for any fiscal year.[43]

(10) Franchise Tax Credit. (effective 1997 Tax Year) A taxpayer that is a shareholder in a financial institution that has elected S corporation status for federal income tax purposes, or is a member of a financial institution organized as a limited liability company which is taxed as a partnership for federal income

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[35] Iowa Code §§ 15.333, 15.335A, 15.336, 422.11F(2).

[36] Iowa Code § 422.11D.

[37] Rehabilitation costs include amounts that are properly includable in computing the basis of the eligible property for tax purposes. Costs of sidewalks, parking lots, and landscaping do not constitute rehabilitation costs for purposes of determining the credit. Iowa Code § 404A.2.

[38] Iowa Code § 404A.2.

[39] Iowa Code § 404A.3.

[40] Iowa Code §§ 303.3B, 404A.4(4).

[41] Iowa Code § 404A.4(3), (5).

[42] An assistive device is an item, piece of equipment, or product system which is used to increase, maintain, or improve the functional capabilities of an individual with a disability in the workplace or on the job. Iowa Code § 422.11E(4).

[43] Iowa Code § 422.11E.

tax purposes, is allowed an individual income tax credit for up to the shareholder's pro rata share of the state franchise tax paid by the financial institution.[44]

(11) Minimum Tax Credit. (effective 1988 Tax Year) Alternative minimum tax paid in a prior tax year by a taxpayer can be claimed as a tax credit against the taxpayer's regular income tax liability in a subsequent tax year. The minimum tax credit may only be used against regular income tax for a tax year to the extent that the regular tax is greater than the minimum tax for the tax year. If the minimum tax credit is not used against the regular tax for a tax year, the remaining credit is carried over to the following tax year to be applied against the regular income tax liability for that period.[45]

(12) Ethanol Blended Gasoline Tax Credit. (effective 2002 Tax Year) A taxpayer operating a gas station at which more than 60 percent of the total gallons sold at retail during the tax year is ethanol blended gasoline shall receive a credit equal to 2.5 cents per gallon of ethanol blended gasoline sold in excess of 60 percent of the total gallons sold. This credit can be claimed for the same gallonage as is claimed for the E-85 Gasoline Promotion Tax Credit. The tax credit is refundable or may be carried forward to the following tax year.[46] The credit is repealed January 1, 2009.

(13) Ethanol Promotion Tax Credit. (effective 2009 Tax Year) An ethanol promotion tax credit for retail dealers who sell and dispense ethanol blended gasoline is available. The tax credit is effective January 1, 2009, and replaces the ethanol blended gasoline tax credit. In order to receive this tax credit, a retail dealer must calculate the retail dealer's biofuel distribution percentage which is the sum of the retail dealer's total ethanol gallonage plus the retail dealer's total biodiesel gallonage expressed as a percentage of the retail dealer's total gasoline gallonage in the retail dealer's applicable determination period (calendar year).

Two tax credit schedules are applicable depending upon whether a retail dealer sells and dispenses more than 200,000 gallons of motor fuel in the applicable determination period. For a retail dealer who sells and dispenses more than 200,000 gallons of motor fuel in an applicable determination period, the retail dealer's biofuel threshold percentage begins at 10 percent for the determination period beginning January 1, 2009, and ending December 31, 2009, and increases each determination period until it reaches 25 percent for each determination period in the period beginning on January 1, 2019, and ending on December 31, 2020. For a retail dealer who sells and dispenses 200,000 gallons or less of motor fuel in an applicable determination period, the retail dealer's biofuel threshold percentage begins at six percent for the determination period beginning January 1, 2009, and ending December 31, 2009, and increases each determination period until it reaches 25 percent for the

[44] Iowa Code § 422.11.
[45] Iowa Code § 422.11B; Iowa Admin. Code 701-42.8.
[46] Iowa Code § 422.11C.

determination period beginning on January 1, 2020, and ending on December 31, 2020.

The ethanol promotion tax credit must be calculated separately for each retail motor fuel site or other permanent or temporary location from which the retail dealer sells and dispenses ethanol blended gasoline. The tax credit rate depends upon whether the retail dealer has attained a biofuel threshold percentage. For any tax year in which the retail dealer has attained a biofuel threshold percentage for a determination period, the tax credit rate is 6.5 cents. For any tax year in which the retail dealer has not attained a biofuel threshold percentage for a determination period, the tax credit rate must be adjusted based on the retail dealer's biofuel threshold percentage disparity. If the retail dealer's biofuel threshold percentage disparity equals 2 percent or less, the tax credit rate is 4.5 cents. If the retail dealer's biofuel threshold percentage disparity equals more than 2 percent but not more than 4 percent, the tax credit rate is 2.5 cents. A retail dealer is not eligible for a tax credit if the retail dealer's biofuel threshold percentage disparity is equal to more than 4 percent. A retail dealer must calculate the tax credit rate on a calendar year basis regardless of whether the retail dealer's tax year is based on a calendar year. The tax credit is refundable. The tax credit is repealed on January 1, 2021.[47]

(14) E-85 Gasoline Promotion Tax Credit. (effective 2006 Tax Year) An E-85 gasoline promotion tax credit is available to a retail dealer who sells and dispenses E-85 gasoline from motor fuel pumps. The tax credit rate is calculated on each gallon of E-85 gasoline which is sold and dispensed by the retail dealer on a calendar year basis, regardless of the number of gallons of ethanol used to blend the motor fuel (between 70 and 85 percent ethanol). The tax credit rate begins at 25 cents per gallon of E-85 gasoline sold and dispensed in calendar years 2006 through 2008, decreases to 20 cents per gallon of E-85 gasoline sold and dispensed in calendar years 2009 and 2010, decreases to 10 cents per gallon of E-85 gasoline sold and dispensed in calendar year 2010, and after that decreases by 1 cent per calendar year until it reaches one cent in calendar year 2020. A retail dealer may claim the E-85 gasoline promotion tax credit on the same gallons of ethanol which the retail dealer may claim the ethanol blended gasoline tax credit until that tax credit expires on January 1, 2009. The E-85 gasoline promotion tax credit is refundable. The E-85 gasoline promotion tax credit is repealed on January 1, 2021.[48]

(15) Biodiesel Blended Fuel Tax Credit. (effective 2006 Tax Year) The tax credit is available to retail dealers that sell biodiesel blended fuel that includes at least 2 percent biodiesel. A retail dealer who sells and dispenses diesel fuel from a motor fuel pump is eligible for this tax credit if the retail dealer sells and dispenses 50 percent or more biodiesel blended fuel during the tax year. The amount of the tax credit is 3 cents multiplied by the total number of

[47] Iowa Code § 422.11N.
[48] Iowa Code § 422.11O.

gallons of biodiesel blended fuel sold and dispensed by the retail dealer. This tax credit is repealed on January 1, 2012.[49]

(16) Equity Investment Tax Credit. (effective 2002 Tax Year) A tax credit is allowed equal to 20 percent of an individual's equity investment in a qualified business. A tax credit is also allowed equal to 20 percent of a taxpayer's equity investment in a community-based seed capital fund. The determination of a qualified business or a community-based seed capital fund is made by the Iowa Capital Investment Board. A tax credit certificate is issued by the Iowa Capital Investment Board for those qualifying investments. The tax credit for an equity investment in a qualified business or a community-based seed capital fund is available for individual income, corporation income, franchise, insurance premiums, and moneys and credits taxes.

The aggregate amount of tax credits issued for all years cannot exceed $10 million. The amount of tax credits issued for the fiscal years ending June 30, 2003, and June 30, 2004, is limited to $3 million for each of these years. The amount of tax credits issued for the fiscal year ending June 30, 2005, is limited to $4 million. If the aggregate amount of $10 million in tax credits is not issued by June 30, 2005, the remaining amount may be issued in subsequent fiscal years but not to exceed $3 million in any fiscal year. The maximum amount of a tax credit for an investor in any one qualifying business is $50,000. Each year, an investor and all affiliates of an investor shall not claim tax credits for more than five different investments in five different qualifying businesses.

The tax credit cannot be redeemed during any tax year beginning prior to January 1, 2005. The tax credit cannot be claimed prior to the third tax year following the tax year in which the investment is made. Any tax credit in excess of the tax liability can be credited to the tax liability for the following five years or until depleted, whichever is earlier.[50]

(17) Venture Capital Fund Investment Tax Credit. (effective 2002 Tax Year) A tax credit is allowed equal to 6 percent of a taxpayer's equity investment in a venture capital fund. The venture capital fund must be a private seed and venture capital partnership or entity fund that has been certified by the Iowa Capital Investment Board. A tax credit cannot be allowed if the investor already received a tax credit for an investment in a qualifying business or a community-based seed capital fund pursuant to Code section 15E.43 (see previous Equity Investment Tax Credit). A tax credit certificate is issued by the Iowa Capital Investment Board for those qualifying investments.

The aggregate amount of tax credits issued cannot exceed $5 million. The tax credits are available for individual and corporate income, franchise, insurance premiums, and moneys and credits taxes. A taxpayer cannot redeem a tax credit certificate and related tax credit prior to the third tax year following the tax year in which the investment was made.

[49] Iowa Code § 422.11P.

[50] Iowa Code §§ 15E.43-.46, 422.11F(1).

Any tax credit in excess of the tax liability can be credited to the tax liability for the following five years or until depleted, whichever is earlier.[51]

(18) Iowa Fund of Funds Tax Credit. (effective 2002 Tax Year) An Iowa Capital Investment Corporation was created to organize the Iowa Fund of Funds managed by a private venture fund manager. The fund manager will make investments in private seed and venture capital funds which have made a commitment to consider equity investments in businesses located within Iowa. Investors in the Iowa Fund of Funds will be guaranteed a certain rate of return.

The corporation may issue up to $100 million of contingent tax credits for those investments made to the Iowa Fund of Funds at the same time the investment is made. These contingent tax credits will be issued through tax credit certificates which are only redeemable if the rate of return guaranteed to investors is not achieved. A tax credit certificate cannot be redeemed prior to the date or dates specified on the certificate. The tax credit certificates can be transferred, and the corporation is responsible for tracking these transfers. The tax credits are available for individual and corporate income, franchise, insurance premiums, and moneys and credits taxes. Any tax credit in excess of the tax liability may be credited to the tax liability for the following seven years or until depleted, whichever is earlier. No more than $20 million of tax credits can be redeemed in any fiscal year.[52]

(19) Endow Iowa Tax Credit. (effective 2003 Tax Year) A tax credit is allowed for endowment gifts made to an Endow Iowa qualified community foundation to be used for charitable purposes. Any unused credit may be carried forward for up to five tax years. The amount of the credit equals 20 percent of the amount of the gift. The maximum amount of tax credits any taxpayer may receive shall not exceed 5 percent of the aggregate amount of tax credits authorized. The aggregate amount of tax credits authorized under the individual and corporate income, franchise, insurance premiums, and moneys and credits taxes was limited to $2 million in the aggregate for the 2003 and 2004 tax years and is limited to $2 million for tax years 2005 through 2007. For 2008 and subsequent tax years, the cap is $2 million per year plus a percentage of gaming revenues. Ten percent of the amount of tax credits authorized in a calendar year is reserved for those endowment gifts in amounts of $30,000 or less.[53]

(20) Wind Energy Production Tax Credit. (effective 2004 Tax Year) A tax credit is allowed based upon the number of kilowatt-hours of electricity sold by a wind production facility that is originally placed in operation between July 1, 2005, and June 30, 2009. The credit equals the number of kilowatt-hours sold times one cent. The credit is not allowed if the facility has received the benefit of special valuation for property tax purposes or has received a sales or use tax exemption on the purchase of the materials used in the construction of the

[51] Iowa Code §§ 15E.51, 422.11G.
[52] Iowa Code §§ 15E.66, 422.11Q.
[53] Iowa Code §§ 15E.305, 15E.306, 422.11H.

facility. The Iowa Utilities Board must determine the eligibility of the facility for the credit. However, the board shall not find more than 450 megawatts of nameplate generating capacity for all combined qualified facilities as eligible for the credit. An owner of a facility cannot own more than two qualified facilities eligible for the tax credits. The board of supervisors of the county where the facility is located must give its approval before a qualified facility may receive the credit. The credit is nonrefundable but may be transferred and carried forward up to seven years. In addition, a credit certificate issued under the program cannot be used for a tax year beginning prior to July 1, 2006.[54]

(21) Renewable Energy Tax Credit. (effective 2005 Tax Year) A renewable energy tax credit program is established in the Utilities Division of the Department of Commerce. Either a producer or purchaser of renewable energy may apply to the Iowa Utilities Board for a tax credit equal to 1 1/2 cents per kilowatt-hour of electricity or $4.50 per million British thermal units of heat, methane gas, refuse-derived fuel, or other biogas used to generate electricity, or $1.44 per 1,000 standard cubic feet of hydrogen fuel produced and sold from an eligible renewable energy facility.

Upon receipt of an application, the board will determine whether or not the facility from which the energy was generated and sold is an eligible renewable energy facility under the program. An eligible renewable energy facility may be a wind energy conversion facility, biogas recovery facility, biomass conversion facility, methane gas recovery facility, solar energy conversion facility, or refuse conversion facility. To be eligible, the facility must meet certain ownership requirements and must have been placed into service on or after July 1, 2005, but before January 1, 2012. The board cannot find as eligible, in the aggregate, more than 180 megawatts of nameplate generating capacity for wind energy conversion facilities and more than 20 megawatts of nameplate generating capacity for all other types of facilities and 167 billion British thermal units of heat for commercial purposes. Because of these limitations, a waiting list of eligible facilities is maintained for additional capacity that may become available.

If the facility is an eligible renewable energy facility, the board calculates the amount of energy generated and sold and notifies the Department of Revenue of the amount of energy eligible for the renewable energy tax credit. The department then issues the appropriate tax credit certificates to the applicant. Renewable energy tax credit certificates cannot be issued for energy purchased after December 31, 2021.

Each renewable energy tax credit certificate expires after 10 years. The tax credit certificate may be applied against the certificate holder's individual and corporate income taxes, franchise tax, insurance premiums tax, sales and use tax, or replacement property tax. Renewable energy tax credit certificates may be transferred one time and applied to any tax that would have been available to the initial certificate holder. A person who receives a wind energy production tax credit under Code chapter 476B is not eligible to claim this tax credit. An owner

[54] Iowa Code § 422.11J, ch. 476B.

of at least 51 percent equity interest in an eligible facility is not allowed to own more than 10 percent equity interest in any other eligible facility.[55]

(22) Soy-Based Cutting Tool Oil Tax Credit. (effective 2005 Tax Year) The tax credit equals the costs incurred for the purchase and replacement costs related to the transition from using nonsoy-based cutting tool oil to using soy-based cutting tool oil in the manufacturing process. The costs must meet three other requirements: they must be incurred after June 30, 2005, and before January 1, 2007; they must be incurred in the first 12 months of the transition to using soy-based cutting tool oil; and they must not exceed $2 per gallon of the soy-based cutting tool oil used in the transition, up to 2,000 gallons. Any excess credit is refundable. The credit applies to tax years ending after June 30, 2005, and beginning before January 1, 2007. The credit is repealed December 31, 2007.[56]

(23) Early Childhood Development Tax Credit. (effective 2006 Tax Year) A taxpayer may claim an early childhood development tax credit equal to 25 percent of the first $1,000 of early childhood development expenses paid to others for dependents ages three through five. The expenses eligible for the credit include books that improve child development, instructional materials required to be used in child development or educational lesson activity, lesson plans and curricula, and child development and educational activities outside of the home. The credit is not available to taxpayers with incomes of $45,000 or more. For the 2006 tax year only, expenses incurred during November and December 2005 can qualify for the credit.[57]

(24) Economic Development Region Revolving Fund Contribution Tax Credit. (effective 2005 Tax Year) A tax credit for contributions made to economic development region revolving funds is provided. The revolving funds are to assist economic development regions in fulfilling plans for economic development efforts. The tax credit is equal to 20 percent of the amount contributed to the fund. Not more than $2 million in total credits may be awarded during a fiscal year plus any unused credit amount from the previous year.[58]

(25) Wages-Benefits Tax Credit. (effective 2005 Tax Year) A nonretail, nonservice business may claim a tax credit equal to a percentage of the annual wages and benefits paid for a qualified new job created by the location or expansion of the business in the state. The percentage varies in relation to the level of annual wage and benefits paid for the qualified new job. If the annual wages and benefits equal at least 130 percent but less than 160 percent of the average county wage, the credit equals 5 percent of the wages and benefits paid. If the annual wages and benefits equal at least 160 percent of the average county wage, the credit equals 10 percent of the wages and benefits paid. A

[55] Iowa Code § 422.11J, ch. 476C.
[56] Iowa Code § 422.11I.
[57] Iowa Code § 422.12C(2)-(4).
[58] Iowa Code §§ 15E.232, 422.11K.

qualified new job is entitled to the tax credit upon the end of the 12th month of the job having been filled, and, once approved, tax credits for the next four subsequent tax years may be approved if the job continues to be filled and application for the credit is made as required. The percentage determined in the first tax year shall continue to apply to subsequent tax credits as the credits relate to that qualified new job.

An application for a tax credit certificate shall be submitted to and processed by the Department of Revenue. An appeal process and a waiver process through the Iowa Economic Development Board are provided. The total amount of tax credit certificates that may be issued for a fiscal year is limited to $10 million.

Recipients of wage-benefits tax credits cannot receive tax incentives under the new High Quality Job Creation Program or moneys from the Grow Iowa Values Fund.

These provisions are effective for tax years ending on or after June 9, 2005, and apply to new jobs created on or after that date.[59]

(26) Agricultural Assets Transfer Tax Credit. (effective 2007 Tax Year) The agricultural assets transfer tax credit is available under the individual and corporate income taxes for taxpayers who help beginning farmers acquire agricultural assets by lease or rental agreement. The agreement must be for a period of at least two years but not more than five years. The agricultural assets include agricultural land, depreciable agricultural property, crops, and livestock. The Agricultural Development Authority administers the tax credit. The amount of the credit equals 5 percent of the amount paid to the taxpayer under the agreement or, in the alternative, 15 percent of the amount paid to the taxpayer from crops or animals sold under an agreement in which the payment is to be made exclusively from the sale of the crops or animals. Any credit in excess of the tax liability may be carried forward for up to five years.[60]

(27) Soy-Based Transformer Fluid Tax Credit. (effective June 2006 Tax Year) The soy-based transformer fluid tax credit is provided to electric utilities under the individual and corporate income, sales and use, and replacement taxes. Soy-based transformer fluid is nonconductible fluid that contains at least 98 percent soy-based products. The tax credit equals the purchase and replacement costs incurred by an electric utility in making the transition from using nonsoy-based transformer fluid to using soy-based transformer fluid. The costs must meet three other requirements: they must be incurred after June 30, 2006, and before January 1, 2008; they must be incurred in the first 18 months of the transition to using soy-based transformer fluid; and they must not exceed $2 per gallon of the soy-based transformer fluid used in the transition, up to 20,000 gallons per electric utility. The total amount of soy-based transformer fluid eligible for a tax credit is not to exceed 60,000 gallons. Any credit in excess of the tax liability is refundable. The credit applies to tax years ending after June

[59] Iowa Code §§ 15I.2-.4, 422.11L.
[60] Iowa Code §§ 175.37, 422.11M.

30, 2006, and beginning before January 1, 2008. The credit is repealed December 31, 2008.[61]

(28) School Tuition Organization Tax Credit. (effective 2006 Tax Year) An individual income tax credit equal to a maximum of 65 percent of the voluntary contributions made to a school tuition organization that is exempt from federal income tax is provided. At least 90 percent of total contributions must be used by the school tuition organization to provide tuition grants to students who are members of households that have total annual incomes of not more than three times the most recently published federal poverty guidelines. The contribution may not be deducted as a charitable deduction for state tax purposes or be designated for the direct benefit of the taxpayer's dependents or any other student designated by the taxpayer. The school tuition organization must limit these tuition grants to children that reside in Iowa, must provide grants to students at more than one school, and must only provide grants to students of low-income families. The tuition grants are to be used to allow the students to attend a nonpublic elementary or secondary school located in the state.

The tax credit is claimed by means of the attachment of tax credit certificates to the taxpayer's tax return. A school tuition organization is authorized to issue the tax credit certificates in amounts equal to the total certified enrollment of the schools served by it multiplied by a per student tax credit amount. The amount is determined by dividing the total approved tax credits by the total enrollment of all of the schools served by the student tuition organizations. The total approved tax credits are $2.5 million for the 2006 tax year and $5 million for all subsequent tax years.

The school tuition organization must report to the Department of Revenue information related to the amount of contributions made to the organization, the number and amount of grants awarded, and the schools awarded grants.[62]

(29) Livestock Production Tax Credit Refund. (effective 1996 Tax Year) This credit is not an income tax credit but rather a payment to qualified taxpayers and is listed here because a refund claim will more than likely be filed with a taxpayer's income tax return. Taxpayers who meet a number of qualifications are eligible for a livestock production tax credit refund for ownership of livestock in Iowa during the tax year. The amount of potential credit per operation is determined by adding together for each head of livestock in the taxpayer's operation the product of 10 cents times the number of corn equivalents consumed by that head of livestock in the tax year according to a schedule included in the statute. However, only taxpayers with cow-calf operations are eligible. Cow-calf operations are mature beef cows bred or for breeding, bred yearling heifers, and breeding bulls.

Taxpayers with cow-calf operations are eligible for livestock production tax credit refunds for those mature beef cows bred or for breeding, bred yearling heifers, and breeding bulls that were in inventory in the livestock operations on

[61] Iowa Code § 422.11R, ch. 476D.
[62] Iowa Code § 422.11S.

December 31 of the tax year and that had also been in inventory on July 1 of that same tax year. The refund is also limited to taxpayers with federal taxable income below a certain amount that is adjusted annually for inflation.

The amount of livestock production credit refund per livestock operation or per taxpayer may not exceed $3,000 per tax year. If the aggregate claims for refund exceed the amount appropriated (a standing $2 million) for this credit, all claims will be prorated to each taxpayer and any unpaid portion will not be carried forward or backward.[63]

(30) Start-Up Business Tax Deferment of Taxable Income. (effective 2002 Tax Year) A tax deferment is available to a "start-up" business beginning operations during the first tax year for which a deferment of taxable income is claimed. The start-up business must have its commercial domicile in Iowa, and must be at least 25 percent funded by venture capital moneys. Also, the start-up business must not have any delinquent taxes or other debt outstanding to the state of Iowa. A start-up business cannot include an existing business that relocates from another state or from another location in Iowa, a newly created business that is the result of a merger of two or more businesses, or an existing business that is reorganized or reincorporated.

If the deferment is approved, the start-up business must pay taxes on the deferred taxable income in five equal annual installments during the five tax years following the three years of deferment. A taxpayer receiving a deferment must file an Iowa tax return for each year in which the deferment is approved. If the taxpayer has a net loss during a tax year during the three-year period, the loss may be applied to any deferred taxable income during that period.[64]

vi. Rate Structure and Brackets — Indexing. The Iowa individual income tax was enacted in 1934 at 1 percent to 5 percent of taxable income.[65] The statutory individual income tax rates range over nine brackets from a low of .36 percent to a high of 8.98 percent. As a result of indexing, the state individual income tax rates for the 2007 tax year are as follows:

- .36 percent on taxable income between $0 and $1,343.
- .72 percent on taxable income exceeding $1,343 up to $2,686.
- 2.43 percent on taxable income exceeding $2,686 up to $5,372.
- 4.5 percent on taxable income exceeding $5,372 up to $12,087.
- 6.12 percent on taxable income exceeding $12,087 up to $20,145.
- 6.48 percent on taxable income exceeding $20,145 up to $26,860.
- 6.8 percent on taxable income exceeding $26,860 up to $40,290.
- 7.92 percent on taxable income exceeding $40,290 up to $60,435.
- 8.98 percent on all taxable income exceeding $60,435.[66]

[63] Iowa Code §§ 422.120-.122.
[64] Iowa Code § 422.24A.
[65] For history of tax rates, see DOR website for annual reports: http://www.state.ia.us/tax/educate/StatReports.html#AnnRep
[66] Iowa Code §§ 422.4(1), 422.5(1), (5).

The brackets are indexed for inflation by the Director of Revenue by using 100 percent of the change in the gross domestic product price deflator. The cumulative inflation factor for the 2007 tax year is 134.3 percent. The effect of the cumulative inflation factor is as depicted in the rate structure and brackets.

vii. Alternative Minimum Tax. Iowa enacted the alternative minimum tax in 1982. The tax, which is imposed on both the state and federal level, is an attempt to ensure that at least a minimum amount of income tax is paid by high-income individual taxpayers, including estates and trusts, who realize large tax savings through use of certain tax deductions and exemptions. The alternative minimum tax is considered a recapture mechanism which attempts to maintain tax equity.

Iowa's alternative minimum tax is based on the federal tax with some adjustments. The tax rate for individuals, estates, and trusts is 75 percent of the highest regular state tax rate, i.e., 6.7 percent.[67]

b. Revenues From the Iowa Individual Income Tax. Revenue collected from the state individual income tax is deposited into the State General Fund. Following are gross General Fund receipts in millions of dollars collected from the individual income tax for the past fiscal years:

FY 2001	$2,426.6	FY 2004	$2,592.3
FY 2002	$2,372.0	FY 2005	$2,782.3
FY 2003	$2,417.6	FY 2006	$2,854.2

2. Local Government Income Surtax.

a. School District Income Surtax. Boards of school districts may call an election or may on their own motion (subject to petition for election from the voters) impose a property tax or a combination of a property tax and an income surtax for additional funding for the school district under the instructional support program,[68] the educational improvement program,[69] and the physical plant and equipment levy.[70] The cumulative surtax rate for a district, including the surtax imposed by the county for emergency medical services, may not exceed 20 percent of any individual's state income tax liability.[71] The surtax is collected with the individual income tax return. All revenue collected from the surtax is remitted to the local school district imposing the surtax, except for the portion remitted to the Department of Revenue to cover costs incurred in administering the surtax.

b. Emergency Medical Services Income Surtax. The emergency medical services income surtax was enacted in 1992. A county board of supervisors may offer for voter approval a local option income surtax, an ad valorem property tax, or a combination of the two taxes to generate revenues for emergency medical services. The income

[67] Iowa Code § 422.5(1)(k).
[68] Iowa Code §§ 257.18, 257.21.
[69] Iowa Code § 257.29.
[70] Iowa Code § 298.2.
[71] Iowa Code § 298.14.

surtax may be imposed for a maximum period of five years and is collected with the individual income tax return. All revenue collected from the surtax is remitted to the county imposing the surtax, except for the portion remitted to the Department of Revenue to cover costs incurred in administering the surtax.[72] The surtax was imposed for the first time in the 1995 tax year by Appanoose County. As of 2006, no other county is imposing the surtax.

3. Corporate Income Tax (Ch. 422, Div. III).

a. Rates. The corporate income tax was first enacted in 1934 at an initial rate of 2 percent. Since 1981, rates progressing from a low of 6 percent to a high of 12 percent have been imposed. These rates are applied as follows: 6 percent on the first $25,000 of income; 8 percent on the next $75,000; 10 percent on the next $150,000; and 12 percent on all amounts over $250,000.[73]

b. Revenues. Gross tax collections in millions of dollars are:

FY 2001	$284.8	FY 2004	$234.8
FY 2002	$221.3	FY 2005	$280.9
FY 2003	$237.0	FY 2006	$348.6

Revenues collected are deposited in the State General Fund.

c. Subject to Tax. Corporations subject to the tax include joint stock companies, and associations organized for pecuniary profit, and partnerships and limited liability companies taxed as corporations under the Internal Revenue Code.[74]

d. Exempt Organizations and Corporations. Organizations and corporations exempt are those within the financial and insurance industries. Also exempt are corporations and trusts organized exclusively for religious, charitable, scientific, educational, and other nonprofit purposes exempt under IRC § 501.[75] However, since 1988 such exempt nonprofit organizations and corporations are subject to an Iowa corporate tax on the state's apportioned share of the unrelated business income as computed for federal tax purposes. The rates are the same as for the regular corporate income tax.[76]

e. Computation and Conformity With the Federal Code. It is important to note that Iowa like most other states uses as the basis for the Iowa corporate income tax the federal corporate taxable income of the corporation. Thus the state conforms to federal definitions of income and adjustments made to income. The state continues to follow the IRC by its passage of the "IRC update bill." However, if the state does not wish to conform to federal provisions, the General Assembly may enact adjustments to federal taxable income. This conformity with the definition of federal taxable income has the

[72] Iowa Code ch. 422D.
[73] Iowa Code § 422.33(1). For history of tax rates, see DOR website for annual reports: http://www.state.ia.us/tax/educate/StatReports.html#AnnRep
[74] Iowa Code § 422.32(4).
[75] Iowa Code § 422.34.
[76] Iowa Code § 422.33(1A).

advantage of reducing administrative costs for the state collection agency and compliance costs for the taxpayer. An IRC update bill was enacted in 2006, hence the latest updated references to the federal Internal Revenue Code are to January 1, 2006, and are effective for tax years beginning on or after January 1, 2005.[77] References to the federal research activities credit are updated to January 1, 2006.[78]

The tax is imposed on the Iowa net income of corporations doing business within the state or receiving income from property in the state. The starting point is the taxable income of the corporation before the net operating loss as computed for federal tax purposes with a number of adjustments.[79] These adjustments include:

i. Subtracting from Federal Taxable Income the Amount of:

- Interest and dividends from federal securities.[80]
- Fifty percent of the federal income taxes paid during the tax year or for accrual-basis corporations 50 percent of the income tax liability for the tax year reduced by any refund received.[81]
- The federal work opportunity credit, alcohol fuel credit, and employer social security credit to the extent these increased federal taxable income.
- Sixty-five percent of wages paid to individuals who were hired for the first time by the taxpayer and who had been convicted of a felony, or were on parole, probation, or work release, or, in the case of a small business, were individuals with a mental or physical impairment.
- The loss on the sale or exchange of a regulated investment company to the extent it was disallowed for federal tax purposes.
- The amounts included in income as a result of sale-leaseback agreements entered into prior to January 1, 1986.
- The first-year bonus depreciation under IRC § 168(k)(4) for tax years ending after May 5, 2003, if the taxpayer elects to take the depreciation amount. However, such bonus depreciation for tax years ending before May 6, 2003, does not apply.
- The taxpayer may elect not to take the increased expensing allowance under IRC § 179 that was taken for federal tax purposes for tax years beginning on or after January 1, 2003.
- The gain from the sale of obligations of the state of Iowa and its political subdivisions if specifically exempt by statute.
- The amount of foreign dividend income.[82]

[77] Iowa Code § 422.32(7).
[78] Iowa Code §§ 15.335(4), 15A.9(8), 422.33(5).
[79] Iowa Code § 422.35.
[80] Iowa Code § 422.35(1); see Iowa Admin. Code 701-40.2 for a discussion of exemption status.
[81] Iowa Code § 422.35(4); see Iowa Admin. Code 701-53.12.
[82] Iowa Code § 422.35(21). This codifies current practice and administrative rules based on the U.S. Supreme Court decision in Kraft General Foods, Inc. v. Iowa Department of Revenue and Finance, 505 U.S. 71 (1992).

- Ordinary or capital gain realized from the involuntary conversion of property due to eminent domain. If the gain is not recognized because the converted property is replaced, then the deduction does not occur until the amount of the gain is subsequently realized.

ii. Adding to Federal Taxable Income the Amount of:

- Interest and dividends from securities of foreign, state, and political subdivisions and regulated investment companies to the extent they are exempt from federal income tax and not otherwise exempt from state tax.[83]
- Amounts excluded from income as a result of sale-leaseback agreements entered into prior to January 1, 1986.
- The percentage depletion amount determined with respect to an oil, gas, or geothermal well in excess of the cost depletion amount.
- The amount of depreciation taken on a speculative shell building that is exempt from property tax in excess of the depreciation amount based upon property classified as 15-year property.
- Iowa income tax deducted.
- If not otherwise included, gain from the sale of obligations of the state of Iowa and its political subdivisions if not otherwise specifically exempt by statutes.

If the entire business is conducted within the state, then the total net income is subject to tax. If the business is carried on both in and outside the state or if income is derived partly in and outside the state, the net income is allocated and apportioned based upon the amount of income attributable to the state. The gain or loss from the disposition of property that was only operationally related to sources within Iowa or without Iowa, but related to business carried on in Iowa, is business income. For example, royalties for the use of a trademark used within Iowa or without Iowa, but related to business carried on in Iowa, are considered business income subject to apportionment.[84]

The allocation and apportionment of income is done by distinguishing business from nonbusiness income. If the business income involves the manufacture or sale of products, the apportionment used is the single-factor sales formula, i.e., apportioned based upon the percent of total sales which are made within the state. Most states use a three-factor formula based upon an average of a specific percent of total sales, property, and wages which are made or located in the state.

Effective for 1995, income from intangible property located or having a situs in Iowa is considered income from sources within the state. In response to an Iowa Supreme Court case,[85] any gain or loss resulting from the transfer of property, which while owned by the taxpayer was operationally related to the taxpayer's trade or business carried on in Iowa or resulting from the transfer of stock in a corporation that was operationally related

[83] Iowa Code § 422.35(2); see Iowa Admin. Code 701-53.6. See also Iowa Admin. Code 701-40.3 for list of state and political subdivision obligations exempt from state taxation.

[84] Iowa Code § 422.33(2).

[85] Phillips Petroleum Company v. Iowa Department of Revenue and Finance, 511 N.W.2d 608 (Iowa 1993).

to the taxpayer's trade or business carried on in Iowa, is considered business gain or loss. As a result of legislation passed in the 1999 Legislative Session, an Iowa-based corporation, whose only activity outside Iowa is the ownership of intangible assets that have acquired a business situs outside Iowa, may apportion its income to determine the amount of its income which is subject to Iowa income tax.[86]

A foreign corporation will not be subject to Iowa corporate income tax if its only activities in Iowa are one or more of the following:

- Holding meetings of the board of directors or shareholders or holiday parties or employee appreciation dinners.
- Maintaining bank accounts.
- Borrowing money, with or without security.
- Utilizing Iowa courts for litigation.
- Owning and controlling a subsidiary corporation which is incorporated in or which is transacting business within this state where the holding or parent company has no physical presence in the state as that presence relates to the ownership or control of the subsidiary.
- Recruiting personnel where hiring occurs outside the state.
- Training or educating employees or using facilities for that purpose in the state.
- Utilizing a distribution facility in the state, owning or leasing property at the facility, or selling goods at the facility provided not more than 10 percent of the goods sold are shipped to places in the state.[87]

iii. Net Operating Loss. If after all adjustments are made, there is a net operating loss for tax years beginning after August 5, 1997, the loss may be carried back two years or forward for up to 20 years. The carryback period is three years if the taxpayer operates a small business or farm in a presidentially declared disaster area. However, the carryback period for net operating losses from farming businesses is increased to five years to the extent the losses are for tax years beginning on or after January 1, 1998.[88] For tax years beginning prior to August 6, 1997, the loss may be carried back three tax years or carried forward for up to 15 tax years.

f. Credits. The amount of tax computed is then reduced by the following credits:[89]

- A research activities credit for qualified expenditures made in the state to increase research and development under IRC §41.[90]
- A new jobs tax credit for increasing employment by at least 10 percent by a business under the Industrial New Jobs Training Program.[91]

[86] Iowa Code § 422.33(2).
[87] Iowa Code § 422.34A.
[88] Iowa Code § 422.35(11).
[89] See descriptions under Individual Income Tax, subsection 1, paragraph "a," subparagraph v, in this Guide.
[90] Iowa Code §§ 15.335, 15.335A, 15A.9(8), 15E.196(4), 422.33(5).
[91] Iowa Code § 422.33(6).

- An investment tax credit of up to 10 percent of the new investment which is directly related to new jobs created or buildings constructed by eligible businesses.[92]
- A historic preservation and cultural and entertainment district tax credit.[93]
- An assistive device tax credit.[94]
- A franchise tax credit for shareholders in a financial institution that have elected S corporation status for federal tax purposes and are taxed as corporations for state tax purposes.[95]
- A minimum tax credit for alternative minimum tax paid in a prior tax year.[96]
- An ethanol blended gasoline tax credit.[97]
- An ethanol promotion tax credit.[98]
- An E-85 gasoline promotion tax credit.[99]
- A biodiesel blended fuel tax credit.[100]
- An equity investment tax credit.[101]
- A venture capital fund investment tax credit.[102]
- An Iowa fund of funds tax credit.[103]
- An endow Iowa tax credit.[104]
- A wind energy production tax credit.[105]
- A renewable energy tax credit.[106]
- A soy-based cutting tool oil tax credit.[107]
- An economic development region revolving fund contribution tax credit.[108]
- A wages-benefits tax credit.[109]
- An agricultural assets transfer tax credit.[110]
- A soy-based transformer fluid tax credit.[111]

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[92] Iowa Code §§ 15.333, 15.335A, 15A.9(4), 15E.193B(6), 15E.196(3), 422.33(12)(b).
[93] Iowa Code ch. 404A, §§ 303.3B, 422.33(10).
[94] Iowa Code § 422.33(9).
[95] Iowa Code § 422.33(8).
[96] Iowa Code § 422.33(7); Iowa Admin. Code 701-52.5(4).
[97] Iowa Code § 422.33(11).
[98] Iowa Code § 422.33(11A).
[99] Iowa Code § 422.33(11B).
[100] Iowa Code § 422.33(11C).
[101] Iowa Code §§ 15E.43-.46, 422.33(12)(a).
[102] Iowa Code §§ 15E.51, 422.33(13).
[103] Iowa Code §§ 15E.66, 422.33(21).
[104] Iowa Code §§ 15E.305, 15E.306, 422.33(14).
[105] Iowa Code § 422.33(16), ch. 476B.
[106] Iowa Code § 422.33(16), ch. 476C.
[107] Iowa Code § 422.33(19).
[108] Iowa Code §§ 15E.232, 422.33(17).
[109] Iowa Code §§ 15I.2-.4, 422.33(18).
[110] Iowa Code §§ 175.37, 422.33(22).

- A livestock production tax credit refund.[112]
- A start-up business tax deferment of taxable income.[113]
- A tax credit for certain sales taxes paid by a third-party developer under the high quality job creation program. An eligible business is entitled to this credit in an amount equal to the sales and use taxes paid by a third-party developer for utility services, tangible personal property, and services used in the fulfillment of a written construction or equipping contract of a facility of the eligible business. To be an eligible business certain criteria must be met. These criteria relate to the amount of qualifying investment, whether the business has been relocated, the types of benefits provided to employees, the type of goods produced or manufactured, the amount of pretax profits invested in research and development, the amount of pretax profits invested in worker training and skills enhancement, whether an active productivity and safety improvement program is in place, and facility specifications. In determining eligibility, the Department of Economic Development must consider a variety of factors, including the quality of the jobs to be created, the impact of the proposed project on other businesses in competition with the business being considered, the impact to the state of the proposed project, efforts to hire workers of acquired or merged companies, preferences for hiring residents of the state, and whether known required environmental permits have been issued and regulations met. However, the Department of Economic Development may waive any requirements for good cause.[114]

g. Alternative Minimum Tax (AMT). This tax is devised to ensure that at least a minimum amount of income tax is paid by corporate taxpayers who reap large tax savings by making use of certain tax deductions and exemptions. In essence, the AMT functions as a recapture mechanism, reclaiming some of the tax breaks primarily available to high-income taxpayers. The AMT is imposed only to the extent that it exceeds the taxpayer's regular tax liability and is computed using a rate of 60 percent of the highest regular state corporate tax rate, i.e., 7.2 percent.[115]

h. Filing Dates. Corporation tax returns must be filed by the last day of the fourth month after the close of the corporation's tax year. Cooperatives must file a return on or before the 15th day of the ninth month following the close of the cooperative's tax year. Nonprofit corporation returns with unrelated business income are due on the 15th day of the fifth month following the close of the nonprofit corporation's tax year.[116] Estimated tax payments are due from most corporations on a quarterly basis.[117]

A foreign corporation is not required to file an income tax return if its only activity involves the storing of tangible personal property in Iowa for 60 consecutive days or less

[111] Iowa Code § 422.33(23), ch. 476D.
[112] Iowa Code §§ 422.120-.122.
[113] Iowa Code § 422.24A.
[114] Iowa Code §§ 15.331C, 422.33(20).
[115] Iowa Code § 422.33(4).
[116] Iowa Code § 422.21.
[117] Iowa Code §§ 422.85, 422.86.

in a warehouse for hire located in Iowa if the stored property is not delivered or shipped so as to be included as part of the corporation's gross sales within the state.[118]

4. Taxation of Business Income.

The taxation of the income of a business, which is not a financial institution or insurance company and in which an individual has an ownership interest, varies radically depending upon the type of business. Generally, there are two ways to tax such income. One way is to first subject the business entity to a tax on its income and then to tax the owners on any distribution they may receive. The other way is to tax only the owners' distributive shares of the entity's income whether received or not. For tax purposes, there are four predominant forms of business entities: sole proprietorships, partnerships, regular corporations, and S corporations (also referred to as subchapter S corporations).

a. Sole Proprietorships. Sole proprietorships are just alter egos of individuals and the income is taxed directly to the owners under the individual income tax.

b. Partnerships. Generally, a partnership does not pay income tax on the income of the partnership. Rather, the income (or loss) is listed as income (or loss) for purposes of each partner's income tax based upon the distributive share of the partner. A partnership includes a syndicate, group, pool, joint venture, or other unincorporated organization that carries on any business, financial operation, or venture. However, a partnership that is taxed as a corporation for federal corporate income tax purposes will be taxed as a corporation for state tax purposes.[119]

A limited liability company is a relatively new form of business entity which if properly structured would be taxed in the same manner as a partnership, i.e., the owners rather than the business entity would be subject to tax; yet the owners, like corporate shareholders, are not personally liable for the entity's debts and liabilities. However, a limited liability company that is taxed as a corporation for federal corporate income tax purposes will be taxed as a corporation for state tax purposes.[120] If a financial institution is a limited liability company, a member will receive an individual income tax credit for up to the portion of the franchise tax paid by the financial institution which represents the taxpayer's share of the income of the financial institution.[121]

c. Regular Corporations. The term "corporation" is not limited to the artificial business entity usually known as a corporation but may include other business entities. For state corporate tax purposes these business entities which are taxed as corporations for federal corporate income tax purposes are taxed as corporations unless otherwise made exempt under state law.[122]

d. S Corporations. S corporations are a special type of corporation for federal tax purposes. The income of an S corporation is taxed directly to the shareholders and the corporation is not subject to tax. The same type of treatment for state income tax purposes is required.[123] For a nonresident shareholder, only the income earned in Iowa is

[118] Iowa Code § 422.36(6).
[119] Iowa Code § 422.32(4).
[120] Iowa Code § 422.32(4).
[121] Iowa Code § 422.11.
[122] Iowa Admin. Code 701-51.1(2).
[123] Iowa Code § 422.36(5).

taxed. This is based upon the allocation and apportionment rules for corporate income taxation. For a resident shareholder, the shareholder's distributive share is subject to tax regardless of where earned but a credit for income taxes paid to another state on income earned in that state is allowed. However, beginning with the 1998 tax year, resident shareholders of an S corporation may elect to take advantage of the allocation and apportionment provisions available to nonresidents.[124] If a resident shareholder in an S corporation elects to apportion income in a year and in a later year elects not to apportion income, then the shareholder cannot reelect to apportion income for the three tax years immediately following the first tax year in which the shareholder elected not to apportion income.[125]

If a financial institution is an S corporation, a shareholder will receive an individual or corporate income tax credit for up to that portion of the franchise tax paid by the financial institution which represents the taxpayer's share of the income of the financial institution.[126]

B. Franchise Taxes.

1. Franchise Tax (Ch. 422, Div. V).

a. Rates. The franchise tax on financial institutions was enacted in 1970 at rates from a low of 5 percent to a high of 8 percent of net income. Since 1980, the franchise tax rate has been set at 5 percent of net income.[127]

b. Revenues. Revenues collected are deposited into the State General Fund.[128]

Gross franchise tax collections in millions of dollars are:

FY 2001	$31.2	FY 2004	$38.0
FY 2002	$30.9	FY 2005	$35.4
FY 2003	$35.3	FY 2006	$35.5

c. Entities Subject to Tax. Tax is imposed on the net income of state banks, national banking associations, trust companies, federally and state chartered savings and loan associations, financial institutions chartered by the Federal Home Loan Bank Board, and production credit associations.[129] Credit unions are not subject to the tax.

If a financial institution is an S corporation, the federal tax treatment of the institution, i.e., shareholders are taxed but not the institution, is disregarded and the institution is

[124] Iowa Code § 422.8(2)(b); Iowa Admin. Code 701-50.1.

[125] Iowa Code § 422.5(1)(j)(2).

[126] Iowa Code §§ 422.11, 422.33(8).

[127] Iowa Code § 422.63. In the same legislation that enacted the franchise tax, the moneys and credits tax was repealed. Prior to the enactment of the legislation, financial institutions' incomes were not taxed by the state. Instead, 60 percent of the value of the capital stock and all surplus and undivided profits of financial institutions were taxed as moneys and credits. The rate of the tax on moneys and credits equaled $5 per $1,000 of taxable value. These taxes were imposed by the county and were apportioned 20 percent to the county general fund, 30 percent to the city general fund, and 50 percent to the general fund of the school district.

[128] Prior to fiscal year 2003-2004, $8.8 million was paid quarterly to the cities (60 percent) and counties (40 percent) from which the franchise tax was collected.

[129] Iowa Code § 422.61(1).

subject to Iowa's franchise tax.[130] In addition, the shareholders may be subject to individual or corporate income tax on the income of the financial institution. However, the shareholders could receive a credit for the franchise tax paid. (See II.A.4.d. above.)

d. Computation. The tax is imposed on the Iowa net income of the financial institution which is computed basically like net income for corporate tax purposes, i.e., starting with federal taxable income prior to net operating loss and making adjustments listed for corporate tax purposes. However, all interest and dividends of federal, state, and local political subdivisions are included, there is no deductibility for federal income taxes paid or accrued, and the taxpayer's interest expense allocated to interest exempt for federal income tax purposes may be subtracted.[131] In order to counteract the loss of franchise tax revenue caused by financial institutions setting up subsidiaries and transferring interest-producing assets to them, legislation was enacted effective with the tax year beginning in 1995 disallowing the deduction for that portion of all expenses attributable to an investment in such an investment subsidiary. The amount of expenses disallowed are in the ratio of the investment in investment subsidiaries to total assets.[132] If net income is derived from business carried on entirely within the state, the tax is imposed on the entire net income, but if the business is carried on partly within and without the state, the tax is imposed on the portion of the net income reasonably attributable to business carried on within the state.[133]

e. Credits. The amount of the tax computed is reduced by the following credits:[134]

- **i.** Investment tax credit.[135]
- **ii.** Historic preservation and cultural and entertainment district tax credit.[136]
- **iii.** Minimum tax credit.[137]
- **iv.** Equity investment tax credit.[138]
- **v.** Venture capital fund investment tax credit.[139]
- **vi.** Iowa fund of funds tax credit.[140]
- **vii.** Endow Iowa tax credit.[141]
- **viii.** Wind energy production tax credit.[142]
- **ix.** Renewable energy tax credit.[143]
- **x.** Economic development region revolving fund contribution tax credit.[144]

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[130] Iowa Code § 422.61(3)(g).
[131] Iowa Code § 422.61(3).
[132] Iowa Code § 422.61(3)(f).
[133] Iowa Code § 422.63; Iowa Admin. Code 701-59.25.
[134] See description under Individual Income Tax, subsection 1, paragraph "a," subparagraph v, in this Guide.
[135] Iowa Code §§ 15.333, 15.335A, 15E.193B(6), 15E.196(3), 422.60(5)(b).
[136] Iowa Code ch. 404A, §§ 303.3B, 422.60(4).
[137] Iowa Code § 422.60(3).
[138] Iowa Code §§ 15E.43, 422.60(5)(a).
[139] Iowa Code §§ 15E.51, 422.60(6).
[140] Iowa Code §§ 15E.66, 15E.68, 422.60(12).
[141] Iowa Code §§ 15E.305, 422.60(7).
[142] Iowa Code § 422.60(8), ch. 476B.
[143] Iowa Code § 422.60(8), ch. 476C.

xi. Wages-benefits tax credit.[145]

xii. Tax credit for certain sales taxes paid by a third-party developer under the high quality job creation program.[146]

f. Alternative Minimum Tax. An alternative minimum tax applicable to financial institutions is computed in a similar manner as the corporate minimum tax with a few adjustments. The alternative minimum tax rate is equal to 60 percent of the franchise tax rate, i.e., 3 percent.[147]

g. Filing Dates. Franchise tax returns must be filed by the last day of the fourth month after the close of the tax year. Estimated payments are due from most financial institutions on a quarterly basis.[148]

2. Insurance Premiums Tax (Chs. 432, 432A, 518, and 518A).

a. Rates. The tax rate for all insurance companies and associations was 2 percent for the 2002 calendar year. As a result of legislation enacted in the 2002 Legislative Session, the tax rate is reduced. For life and health insurance companies and associations and mutual health services corporations, the gross premiums tax rate is reduced from 2 percent to one percent over a three-year period. Thus, the rate is 1.75 percent for the 2003 calendar year, 1.50 percent for the 2004 calendar year, and 1.25 percent for the 2005 calendar year. The rate is 1 percent for the 2006 year and for subsequent calendar years.[149] In the case of other insurance companies and associations, the gross premiums tax rate is also reduced over a three-year period from 2004 through 2006. Therefore, the rate is 2 percent for the 2003 calendar year, 1.75 percent for the 2004 calendar year, 1.50 percent for the 2005 calendar year, and 1.25 percent for the 2006 calendar year. The rate is 1 percent for the 2007 calendar year and for subsequent calendar years.[150] A marine insurance underwriting tax of 6.5 percent of the taxable underwriting profits is imposed.[151]

b. Revenues. Gross tax collections in millions of dollars are:

FY 2001	$126.6	FY 2004	$138.2
FY 2002	$135.4	FY 2005	$130.9
FY 2003	$142.2	FY 2006	$121.4

Revenues collected are deposited into the State General Fund.

[144] Iowa Code §§ 15E.232, 422.60(9).
[145] Iowa Code §§ 15I.2-.4, 422.60(10).
[146] Iowa Code §§ 15.331C, 422.60(11). See the description under Corporate Income Tax, subsection 3, paragraph "f", in this Guide.
[147] Iowa Code § 422.60(2).
[148] Iowa Code §§ 422.62, 422.86.
[149] Iowa Code §§ 432.1(1), 432.1(2), 432.2. Prior to its repeal in 1970, insurance companies were subject to the moneys and credits tax.
[150] Iowa Code §§ 432.1(3), 432.1(4), 518.18, 518A.35.
[151] Iowa Code § 432A.1.

c. Entities Subject to Tax. The tax is imposed on the premiums and marine insurance underwriting profits of every insurance company except fraternal beneficiary associations and on the amount of payments for service contracts of mutual service corporations.[152]

d. Computation. The tax is imposed on the gross amount of premiums received during the preceding calendar year on contracts of insurance excluding those received from policies or contracts issued in connection with a pension, annuity, profit-sharing plan, or individual retirement annuity qualified or exempt under specific federal Internal Revenue Code sections and excluding all annuity contract payments received.[153] The tax is also imposed on the gross amount of payments received by mutual service corporations, e.g., medical, hospital, pharmaceutical, or optometric service corporations, for subscriber contracts covering residents of the state.[154] The marine insurance tax is imposed on the taxable underwriting profit on ocean marine insurance written in the state. The underwriting profit written within the state is the proportion of the total underwriting profit which the amount of net premiums written within the state bears to the total amount of net premiums.[155] The taxable underwriting profit is determined by taking a three-year average of the underwriting profits written within the state.[156] The tax is also imposed on the gross premiums of county mutual insurance associations and state mutual insurance associations.[157]

e. Reciprocal Tax. The state of Iowa imposes an additional reciprocal tax on foreign insurance companies doing business in Iowa whose domiciliary state imposes a greater tax on Iowa companies than Iowa does on them. Authority for this reciprocal tax provides that when in another state, the premium, income, or other taxes and fees on Iowa insurance companies exceed those same taxes and fees imposed by Iowa on that state's insurance companies, then Iowa will impose the same amount of taxes and fees on that state's insurance companies. The payment of real or personal property taxes or individual income taxes is not included in this computation.[158]

f. Filing Dates. Premium tax reports from all insurers are to be filed before March 1 of the year following the calendar year for which the tax is due. If the previous year's tax liability is $1,000, prepayment of taxes equal to one-half of the prior year's taxes is due June 1 of the calendar year.[159] Since 2002, additional prepayment amounts are required. These additional prepayment amounts are due by August 15. The additional prepayment amounts are a percentage of the previous year's tax liability. For life and health insurance companies and associations and mutual health service corporations, the percentage is 50 percent for the 2005 and subsequent calendar years. For all other insurance companies and associations, the percentages are 26 percent for the 2005 calendar year and 50 percent for the 2006 and subsequent calendar years.[160] Marine insurance tax and tax

[152] Iowa Code ch. 432A, §§ 432.1, 432.2, 518.18, 518A.35.
[153] Iowa Code § 432.1.
[154] Iowa Code § 432.2.
[155] Iowa Code § 432A.2.
[156] Iowa Code § 432A.6.
[157] Iowa Code §§ 518.18, 518A.35.
[158] Iowa Code § 505.14.
[159] Iowa Code §§ 432.1(5), (6)(a), 518.18(2), (3)(a), 518A.35(2), (3)(a).
[160] Iowa Code §§ 432.1(6)(b)-(c), 518.18(3)(b), 518A.35(3)(b).

returns are due and payable by June 1 of the year following the calendar year for which the tax is due.[161]

g. Credits. The amount of the tax computed is reduced by the following:[162]

i. Investment tax credit (also referred to as insurance premiums tax credit).[163]

ii. Historic preservation and cultural and entertainment district tax credit.[164]

iii. Equity investment tax credit.[165]

iv. Venture capital fund investment tax credit.[166]

v. Iowa fund of funds tax credit.[167]

vi. Endow Iowa tax credit.[168]

vii. Wind energy production tax credit.[169]

viii. Renewable energy tax credit.[170]

ix. Economic development region revolving fund contribution tax credit.[171]

x. Wages-benefits tax credit.[172]

xi. Tax credit for certain sales taxes paid by a third-party developer under the high quality job creation program.[173]

[161] Iowa Code §§ 432A.7, 432A.8.
[162] See description under Individual Income Tax, subsection 1, paragraph "a," subparagraph v, in this Guide.
[163] Iowa Code §§ 15.333A, 15.335A, 15E.193B(6), 15E.196(6), 432.12C(2).
[164] Iowa Code ch. 404A, §§ 303.3B, 432.12A.
[165] Iowa Code §§ 15E.43, 432.12C(1).
[166] Iowa Code §§ 15E.51, 432.12B.
[167] Iowa Code §§ 15E.66, 15E.68, 432.12I.
[168] Iowa Code §§ 15E.305, 432.12D.
[169] Iowa Code § 432.12E, ch. 476B.
[170] Iowa Code § 432.12E, ch. 476C.
[171] Iowa Code §§ 15E.232, 432.12F.
[172] Iowa Code §§ 15I.2-.4, 432.12G.
[173] Iowa Code §§ 15.331C, 432.12H. See the description under Corporate Income Tax, subsection 3, paragraph "f", in this Guide.

III. Consumption and Use (Excise) Taxes.

A. Sales and Use Taxes (Ch. 423).

1. Overview.

a. Structure of Code Chapter. 2003 Iowa Acts, First Extraordinary Session, chapter 2 (H.F. 683), sections 94 through 203, were enacted and made effective July 1, 2004, and rewrote the state sales and use taxes by combining 2003 Code chapter 422, division IV (sales tax), 2003 Code chapter 423 (use tax), and provisions of the Multistate Streamlined Sales and Use Tax Agreement (agreement) into a new 2005 Code chapter 423 and made coordinating reference changes.

Subchapter I of the Code chapter (section 423.1) sets out the definitions applicable to the Code chapter. These definitions are from the definitions used for sales and use taxes and others needed for provisions under the agreement.

Subchapter II of the Code chapter (sections 423.2-423.4) imposes the sales tax, provides sales tax exemptions, and provides for sales tax refunds. These provisions were part of the previous sales tax provisions. However, this subchapter puts all exemptions in the same Code section while the 2003 Code had them located in numerous places, e.g., many agriculture-related exemptions were listed under the definition of "retail sale."

Subchapter III of the Code chapter (sections 423.5 and 423.6) imposes the use tax and provides use tax exemptions. These provisions were part of the previous use tax provisions.

Subchapter IV of the Code chapter (sections 423.7-423.12) establishes the Uniform Sales and Use Tax Administration Act, which is part of the agreement. The subchapter authorizes the Director of Revenue to enter into the agreement on behalf of the state; provides that four representatives are authorized to be members of the governing board established pursuant to the agreement to represent Iowa before that body as one vote (one state representative, one state senator, and two Governor's appointees); creates an Iowa streamlined sales tax advisory council (at least 12 members) to review, study, and submit recommendations to the four representatives for changes to the agreement; provides that entry into the agreement does not amend or modify Iowa law; establishes certain agreement requirements, including striving to achieve uniform tax rates, uniform standards, central registration, no change in nexus status as a result of registration, monetary allowances for retailers, and consumer privacy; and provides that the agreement only binds and provides benefits to those states that are members of it.

Subchapter V of the Code chapter (sections 423.13-423.47) provides for the administration of the sales and use tax as it relates to retailers not registered under the agreement. This subchapter incorporates the previous sales and use tax provisions related to the liability and collection of tax, penalties, filing of returns, and refunds. The subchapter also incorporates the sourcing rules contained in the agreement. These rules establish the manner of determining in which state the transaction upon which the sales tax is imposed occurs, or if, as in telecommunications services, the transaction occurs in more than one state, how the tax is to be assessed and collected.

Subchapter VI of the Code chapter (sections 423.48-423.57) provides for the administration of the sales and use tax as it relates to retailers registered under the

agreement. In addition, the subchapter specifies the benefits and obligations of retailers that register under the agreement, including the filing of returns and paying of the taxes by a certified service provider who is the retailer's agent with authority to perform all use tax functions, by a certified automated system which is software that calculates the taxes owed the various jurisdictions, and by a proprietary automated system which is software owned by the retailer that calculates the taxes owed the various jurisdictions. The subchapter contains provisions detailing the circumstances under which relief from liability for failure to collect the correct amount of sales or use tax by a seller or certified service provider is granted.

b. Revenues From Sales and Use Taxes. Revenue collected from the state sales tax and excise taxes described in subsection 4 are deposited in the State General Fund. Revenue derived from the use tax on vehicles subject to registration or subject only to the issuance of title is deposited in various special funds. The remainder of the use tax revenue is deposited in the State General Fund. Following are gross receipts in millions of dollars collected from the state sales and use taxes and deposited in the State General Fund:

FY 2001	$1,691.1	FY 2004	$1,732.3
FY 2002	$1,691.5	FY 2005	$1,812.3
FY 2003	$1,704.5	FY 2006	$1,881.1

2. Sales Tax (Subch. II).

The Iowa state sales tax is imposed on the sales price of all sales of tangible personal property and the sales price from the furnishing of enumerated services sold at retail to the ultimate consumer or user of the property or services. Purchases for resale or for use in processing other property for sale are exempt.[174] The state sales tax was enacted in 1934 at a rate of 2 percent. The present state sales tax rate is 5 percent.[175] The local option sales tax may be imposed by a county at a rate not to exceed 1 percent[176] and by the county for a school district at a rate not to exceed 1 percent.[177] Thus the maximum combined state-local rate cannot exceed 7 percent.

Trade-in amounts on tangible personal property which reduce the purchase price are not taxed for sales or use tax purposes.[178] Also, if tax is paid in the state where the transaction took place, the Iowa use tax liability is the difference between the Iowa use tax rate, if higher, and the tax rate of the transaction state.[179]

[174] Iowa Code § 423.3(2), (50), (51).

[175] Iowa Code § 423.2. For history of tax rates, see DOR website for annual reports: http://www.state.ia.us/tax/educate/StatReports.html#AnnRep

[176] Iowa Code §§ 423B.1(5), (8), 423B.5.

[177] Iowa Code §§ 423E.1(2), 423E.2(3).

[178] Iowa Code § 423.1(47)(b).

[179] Iowa Code § 423.22.

The responsibility for collecting the state sales tax is on all retail sellers who sell tangible personal property or taxable services in Iowa.[180] The seller is required to apply for and hold a retail permit and file a retailer's sales tax return.[181]

All sales of tangible personal property at retail are subject to the sales tax unless specifically exempted by statute. Only enumerated services are subject to the state sales tax.[182] (See Appendix A for a listing of taxable services.)

Major exemptions include computers, machinery, and equipment used in processing, research, and recycling; motor fuel (subject to special excise tax); food for home consumption; prescription drugs and medical devices; motor vehicles (subject to use tax); and metered electricity, metered natural gas, and fuels and heating oils for residential customers.[183] Also excluded from tax are farm machinery and equipment and specified personal property and services used in agricultural production and specified personal property used in livestock production.[184] "Agricultural production" is defined as including the production of flowering, ornamental, or vegetable plants in commercial greenhouses or otherwise, and production from aquaculture. "Agricultural products" includes flowering, ornamental, or vegetable plants and those products of aquaculture.[185] "Livestock" includes but is not limited to an animal classified as an ostrich, rhea, emu, bison, or farm deer.[186] Legislation enacted during the 2006 session provides for the phase out of the tax on central office equipment and transmission equipment used in telecommunications operations.[187] (See Appendix B for a listing of statutory sales and use tax exemptions.)

Legislation enacted during the 2005 session authorizes the Department of Revenue to rebate state sales tax collected by retailers on purchases made at an automobile racetrack facility. To be eligible for the rebate, the facility must be located on a maximum of 232 acres in Newton. The person eligible to receive the rebate is the owner or operator of the sanctioned automobile racetrack facility. Construction on the facility must commence no later than May 4, 2006, and the cost of construction upon completion must be at least $35 million.

The rebate of sales tax is only of the sales tax collected on transactions occurring on or after January 1, 2006, and before January 1, 2016. The rebate only applies to the state sales tax collected, and not to any local option sales tax, and is limited to a total of $12.5 million in rebates. The rebate ceases upon the transfer of the facility to a party other than the original owners of the facility or upon a change in control of the facility. A change in control occurs if at least 60 percent of the equity interest ceases to be owned by Iowa residents or an Iowa corporation or the original owners cease to own more than 50 percent of the voting interests of the facility owner.

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[180] Iowa Code § 423.29.

[181] Iowa Code §§ 423.31, 423.36, 423.37.

[182] Iowa Code § 423.2(5)-(9).

[183] Iowa Code §§ 423.3(47), (56), (57), (58), (60), (73), 423.3(84). The exemption for electricity, natural gas, and fuels and heating oils for residential customers does not apply to local option sales taxes under Iowa Code chapters 423B and 423E.

[184] Iowa Code § 423.3(3)-(16).

[185] Iowa Code § 423.1(3).

[186] Iowa Code § 423.1(23).

[187] Iowa Code § 423.3(47A). The phase out is implemented by means of a progressive refund of the amount of tax paid. For FY 2007, one-seventh of the amount of tax paid is refunded. The fraction is increased by one-seventh each fiscal year until the equipment is totally exempt beginning in FY 2012.

The rebate provision is repealed either June 30, 2016, or when $12.5 million has been rebated, or upon a change in control of the facility, whichever occurs earliest.[188]

Tangible personal property and services that qualify as casual sales are exempt from sales tax. In order for these sales to qualify for exemption as casual sales, the sale must be made by a person who is not a retailer or, if the seller is a retailer, the current sale must be unrelated to the retailer's regular business and must not involve a liquidation of the business. Casual sales are exempt from the Iowa sales and use tax except for the casual sale of vehicles subject to registration, aircraft, and watercraft.

Two separate sales unrelated to the seller's regular business within a 12-month period are not considered to be typical and, therefore, are not taxable. Three separate sales within a 12-month period are considered recurring or typical. Tax applies beginning with the third sale. If a sale occurs consistently over a span of years, it is considered recurring and not casual, even though only one sale occurs each year. However, the sales of a service are a casual sale even though the sales are of a recurring nature if (1) the seller is not engaged for profit in the business of selling the service, (2) the owner is the only person performing the service, (3) the owner is a full-time student, and (4) the total gross receipts for performing the service in the calendar year does not exceed $5,000.

3. Use Tax (Subch. III).

The Iowa use tax was enacted in 1937 at the rate of 2 percent of the purchase price of property. The current use tax rate is 5 percent. The Iowa use tax is meant to complement the Iowa sales tax. The general rule is that when a transaction would be subject to Iowa sales tax if consummated in Iowa, the transaction, although consummated outside the state of Iowa but involving tangible personal property sold for use in Iowa and used in Iowa, is subject to Iowa use tax. This principle also applies to the sale of taxable services outside of Iowa for use in Iowa.[189] Likewise, with few exceptions, an exemption allowed for Iowa sales tax purposes also applies to the use tax.[190] Any transaction where the sales tax has been paid is exempt from use tax.[191] (See Appendix B for a listing of statutory sales and use tax exemptions.)

A "taxable use" is the exercise of any right of ownership over tangible personal property in Iowa by any person owning the property. A taxable use is also an enumerated taxable service rendered, furnished, or performed for use in Iowa or the product or result of an enumerated service used in Iowa. "Taxable use" does not include the right to sell the property in the regular course of business or the right to process or manufacture the property into another article of tangible personal property intended for sale at retail.[192]

The responsibility for collecting the state use tax is on all interstate sellers who sell tangible personal property or taxable services for use in Iowa, provided the seller maintains directly or by a subsidiary, an office, distribution house, sale house, warehouse,

[188] Iowa Code § 423.4(5).
[189] Iowa Code § 423.5; Iowa Admin. Code 701-31.1.
[190] Iowa Code § 423.6(5), (6).
[191] Iowa Code § 423.6(1).
[192] Iowa Code §§ 423.1(57), 423.5(5), 423.6(2),(3); Iowa Admin. Code 701-28.1.

or other place of business or has an agent operating within the state either permanently or temporarily.[193] The seller is required to apply for and hold a retail permit and file a retailer's use tax return.[194]

The 5 percent use tax collection requirement is deemed to have been met by collection of the following:

- The 5 percent excise tax collected by out-of-state-based firms making sales of tangible personal property or sales of certain services purchased for use in Iowa.[195]
- The 5 percent excise tax collected on goods or services purchased tax free by consumers and subsequently used in Iowa.[196]
- The 5 percent excise tax collected by Iowa county treasurers or the Department of Transportation from purchasers on vehicles, including manufactured housing, subject to registration or subject only to the issuance of title,[197] or from lessors on vehicles leased in the course of their business.[198]

4. Hotel/Motel and Construction Equipment Excise Taxes (Chs. 423A and 423D).

a. In order to maintain the same tax base for state and local sales taxes, the following items which were previously taxed under the state sales and use taxes are now separate excise taxes:

i. Excise Tax on Hotel and Motel Rooms. A tax of 5 percent is imposed upon the sale price from the renting of rooms, apartments, or sleeping quarters in a hotel, motel, inn, public lodging house, rooming house, manufactured or mobile home which is tangible personal property, or tourist court, or in any place where sleeping accommodations are furnished to transient guests for rent, whether with or without meals.[199] However, this tax does not apply to the gross receipts from the renting of a room, apartment, or sleeping quarters while rented by the same person for a period of more than thirty-one consecutive days or from the renting of sleeping rooms in dormitories and in memorial unions at universities and colleges in the state or from lodging furnished for a religious retreat or function if the lodging property is exempt from property taxes as property of a religious institution.[200]

ii. Excise Tax on Specific Construction Equipment. A 5 percent excise tax is imposed on the sale of self-propelled building equipment, pile drivers, and motorized scaffolding, including auxiliary attachments which improve the performance, safety, operation, or efficiency of the equipment, and replacement parts and which are directly and primarily used by contractors, subcontractors, and builders

[193] Iowa Code § 423.29; Iowa Admin. Code 701-30.1(1).
[194] Iowa Code §§ 423.32, 423.36, 423.37.
[195] Iowa Code § 423.30.
[196] Iowa Code § 423.34.
[197] Iowa Code § 423.26.
[198] Iowa Code § 423.27.
[199] Iowa Code §§ 423A.2 (definitions), 423A.3.
[200] Iowa Code § 423A.5.

for new construction, reconstruction, alterations, expansion, or remodeling of real property or structures.[201]

b. Because of the excise taxes imposed on hotel and motel rooms and specific construction equipment, those items are exempt from the sales and use taxes under Code chapter 423. However, the administration of each excise tax shall be done as nearly as possible in conjunction with the sales and use tax law.[202] The revenues from both excise taxes are included in the totals for state sales tax collections.

5. Local Option Taxes (Chs. 423A, 423B, and 423E).

a. Local Hotel and Motel Tax. In 1978, cities and counties were authorized to impose a local option hotel and motel tax of up to 7 percent in increments of 1 percent. The tax is imposed on the renting of hotel and motel rooms that are subject to the state excise tax on hotel and motel rooms. The tax imposed by a city applies within its corporate boundaries, and the tax imposed by a county applies only to areas outside city corporate boundaries.[203]

b. Local County Sales Tax. In 1985, counties were authorized to impose local option county sales tax in areas of the county voting for the tax at a rate of not more than 1 percent. The tax is imposed only on those sales taxed under the state sales tax, except the tax shall not be imposed on the following:

- Sales of motor fuel or special fuel which is consumed for highway use or in watercraft or aircraft if the fuel tax is paid and a refund has not or will not be allowed.
- Sales of equipment by the Iowa Department of Transportation.

c. Gas and Electricity. When a local county sales tax is imposed, a local excise tax shall also be imposed on the purchase price of natural gas, natural gas service, electricity, and electric service which is subject to the state use tax. This excise tax shall be imposed on the same basis as the state use tax. If the local option tax is imposed, the sale or use of natural gas, natural gas service, electricity, or electric service in a city or county where these items are subject to a franchise fee or user fee is exempt from the local option tax during the period such fee is imposed.[204] No corresponding local option use tax is applicable.

d. Local School District Sales Tax. In 1998, school districts were authorized to vote on the imposition by the county of a local option sales tax within the school districts. The tax is at a rate of not more than 1 percent. The tax would be imposed on those sales taxed under the state sales tax, except for those exempt items listed under the local county sales tax. This local option sales tax was enacted in a form similar to the provisions for the imposition of the local county sales tax.[205]

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[201] Iowa Code §§ 423D.1 (definitions), 423D.2.
[202] Iowa Code §§ 423A.6, 423D.4.
[203] Iowa Code § 423A.4.
[204] Iowa Code § 423B.5.
[205] Iowa Code ch. 423E.

e. Distribution of Revenue. Revenue collected from local option sales taxes is disbursed monthly to the appropriate local governments by the Department of Revenue. Revenue from the local hotel and motel tax is disbursed at least quarterly to the governing body of the jurisdiction where it is imposed.

Local option county sales tax revenue disbursed to a county is apportioned to the county and each city in the county where the tax is imposed based on two factors: population of the noncity areas of the county and respective cities, and the amount of property tax dollars levied in the noncity areas of the county and in respective cities over a specified three-year period.[206] Cities, counties, and other local government entities may issue bonds and enter into Code chapter 28E sharing agreements in anticipation of local option county sales tax revenues.[207]

Local option school district sales tax revenue collected within a county is disbursed to each school district in the county based upon when the tax was approved. If the tax is approved prior to April 1, 2003, the revenues are distributed pro rata based upon the school district's actual percentage of county student enrollment. If the tax is initially approved or extended on or after April 1, 2003, the revenues are distributed according to a formula. A school district may elect to receive revenues according to this formula even though the tax was approved prior to April 1, 2003. The formula is designed to provide a school district with a guaranteed amount which equals $575 per student. The school district is to receive its pro rata amount of the revenue collected in the county, not to exceed the guaranteed amount. If the school district's pro rata amount is less than the guaranteed amount, the district will receive a supplemental amount equal to the difference.[208]

The local option school district sales tax legislation authorizes a school district and a city or county whose boundaries encompass all or some of the school district to enter into a Code chapter 28E sharing agreement and issue bonds in anticipation of the revenues from the local option school district sales tax. In addition, a school district where the local option school district sales tax is imposed may enter into a Code chapter 28E agreement with another school district, a community college, or an area education agency which is located partially or entirely in or is contiguous to the county where the tax is imposed, to receive some of the local option sales tax revenues received by the school district.[209]

B. Motor Vehicle Taxes.

1. Registration Fees (Ch. 321).

Motor vehicle registration fees are imposed on an annual basis and paid to the county treasurer. The county treasurer generally retains 4 percent of fees collected with the remainder being remitted to the Treasurer of State for deposit into the Road Use Tax Fund.[210] The period for which the vehicle is registered begins on the first day of the month following the month of the birthday of the owner of the vehicle and ends on the last

[206] Iowa Code § 423B.7(4).
[207] Iowa Code § 423B.9.
[208] Iowa Code § 423E.4.
[209] Iowa Code § 423E.5.
[210] Iowa Code §§ 321.145, 321.152.

day of the 12th month.[211] The registration period of trucks, truck tractors, and road tractors with a gross weight of five tons or more ends on the last day of December of each year.[212] Vehicle registration renewals must be made on or after the first day of the month preceding the month of expiration through the last day of the month following the month of expiration.[213] Registration fees are in lieu of all state and local taxes, except local vehicle taxes imposed under Code chapter 423B.[214] The following are the principal registration fees:

a. Passenger and Multipurpose Vehicles. For passenger vehicles, and multipurpose vehicles that are model year 1993 or newer, the fee equals 1 percent of the vehicle's value plus 40 cents per hundredweight with a minimum fee of $10.[215] The fee is automatically reduced because of age or date of title transfer as follows: If the motor vehicle is more than five model years old, the portion of the fee that is based on the vehicle's value equals 75 percent of the fee based on the vehicle's value when new; if the motor vehicle is more than six model years old, the portion of the fee that is based on the vehicle's value equals 50 percent of the fee based on the vehicle's value when new; if a 1994 model year or newer motor vehicle is nine years old or older, the registration fee is $35; if a 1993 model year or older vehicle has been titled in the same person's name since new or title was transferred prior to January 1, 2002, the portion of the fee that is based on the vehicle's value equals 10 percent of the fee based on the vehicle's value when new; and if the title of a 1993 model year or older motor vehicle is transferred to a new owner or if such motor vehicle is brought into the state on or after January 1, 2002, the registration fee is $16 for model year 1969 or older, $23 for model years 1970 through 1989, and $27 for model years 1990 through 1993.[216]

b. Older Model Multipurpose Vehicles. For multipurpose vehicles that are 1992 and older model years, the fee is as follows: First and second model years, $200; third and fourth model years, $175; fifth model year, $150; sixth model year, $75; and each succeeding model year, $55.[217]

c. Trucks — Large Vehicles. For motor trucks, truck tractors, and road tractors, the fee is based upon the combined gross weight of the vehicle or combination of vehicles without regard to age of the vehicles except for those weighing less than three tons. For those vehicles weighing three tons or less, the fee is $65 for up to 10 model years old, $55 for more than 10 model years old, $45 for more than 13 model years old, and $35 for more than 15 model years old. For vehicles weighing more than three tons, the fees vary from a low of $80 for vehicles between three and four tons to a high of $1,695 for vehicles between 39 and 40 tons. Vehicles in excess of 40 tons pay a fee of $1,695 plus $80 for each ton over 40 tons. Trailers and semitrailers pay a $10 fee. However, when pulled by

[211] Iowa Code § 321.26.
[212] Iowa Code § 321.39(1).
[213] Iowa Code § 321.40.
[214] Iowa Code § 321.130.
[215] Iowa Code § 321.109.
[216] Iowa Code § 321.113.
[217] Iowa Code § 321.124(3)(h).

a motor truck or truck tractor the weight is included in determining the fee for such trucks.[218]

2. Use Taxes (Ch. 423).

Code chapter 423, subchapter III, imposes the 5 percent use tax on the purchase of motor vehicles subject to registration or to an issuance of a certificate of title. The use tax is computed on the purchase price of the vehicle when purchased. However, the value of any rebate or trade-in that is used to reduce the purchase price is not taxed.[219]

The 5 percent use tax is also imposed on the lease of motor vehicles subject to registration weighing less than 16,000 pounds which are leased for a period of 12 months or longer by a person in the business of such leasing. If a transaction involving a leased vehicle does not require registration or titling of the vehicle, tax on the transaction must be remitted to the Department of Revenue.[220] The tax on the lease of a motor vehicle is computed on each separate lease transaction by multiplying the tax by the total lease payments, plus the down payment, less and excluding title fees, registration fees, lease tax, federal excise tax, optional service or warranty contracts subject to sales tax, insurance, manufacturer's rebate, refundable deposit, and any applicable finance charges on these specified items. If the owner and lessee agree that the lessee will reimburse the owner for the tax imposed under this law, the amount of tax may be reimbursed to the owner either by lump sum or as part of the monthly payments. However, the total amount of tax reimbursed by the lessee to the owner shall not be included in the calculation of the taxable lease price.[221]

The owner of a leased vehicle does not owe additional use tax on a vehicle as long as the owner does not use the vehicle for a purpose other than for lease. If a lease terminates prior to the expiration of a 12-month lease period, the owner does not owe additional use tax as long as the vehicle is not used for a purpose other than for lease.[222]

If a lease is terminated prior to the termination date in the lease agreement, a refund of tax previously paid will be allowed if the vehicle falls under the provisions of the "Lemon Law."[223]

3. Motor Fuel Taxes (Ch. 452A).

a. History. Code chapter 452A, "Motor Fuel and Special Fuel Taxes," was enacted in 1925. The chapter was amended in 1995 to require that motor fuel and special fuel taxes be collected from the person who is a supplier of fuel immediately prior to being withdrawn from the terminal or from the person who owns the fuel to be imported into the state rather than from the distributor. Legislation in 2001 changed the method of taxing alcohol used for blending by requiring the tax to be paid by the licensed supplier when the alcohol is withdrawn from a terminal rather than paid by the manufacturer of the alcohol when it is sold to a licensed supplier within a terminal. In addition, the taxes are to be collected from the blender of alcohol or other product sold for blending or from any other

[218] Iowa Code §§ 321.122, 321.123.
[219] Iowa Code §§ 423.1 (definitions), 423.3(59), 423.5(1), 423.26.
[220] Iowa Code §§ 423.5(3), 423.27.
[221] Iowa Code § 423.27(2).
[222] Iowa Code § 423.6(18).
[223] Iowa Code § 322G.4(2).

person owning fuel upon which the tax has not been paid.[224] In order to sell motor fuel or undyed special fuel within the state or to act as a supplier, restrictive supplier, importer, exporter, dealer, user, or blender, the person must be licensed by the Department of Revenue.[225]

b. Motor Fuel Tax Rates. The tax rates for the following fuels are as follows:

- Gasoline, 20 cents per gallon, subject to the chart below.
- Ethanol blended gasoline, 19 cents per gallon, subject to the chart below.
- E-85, 17 cents per gallon, see paragraph "c," subparagraph ii, below.
- Aviation gasoline, 8 cents per gallon.
- Diesel fuel, 22.5 cents per gallon.
- Liquefied petroleum, 20 cents per gallon.
- Jet fuel, 3 cents per gallon.
- Other special fuels, the same rate as for gasoline.
- Compressed natural gas, 16 cents per cubic foot.[226]

A refund, or income tax credit in certain circumstances, is allowed for taxes paid for motor fuel or undyed special fuels used by the federal government; the state and its agencies and political subdivisions; an Iowa urban transit system or a company that operates a taxicab service under contract with an Iowa urban transit system; a regional transit system; and a benefited fire district; for fuels used in unlicensed vehicles, stationary engines, and implements used in agricultural production and in machinery and equipment used for nonhighway purposes; for fuels used in producing denatured alcohol; for fuels used for idle time, power takeoffs, fuel lost through casualty, and blending errors for special fuel; fuels used by a bona fide commercial fisher; fuels used in the extraction and processing of natural deposits; undyed special fuel used in watercraft; and racing fuel.[227]

c. Variable Tax Rates.

i. Effective July 1, 2002, the tax rates on gasoline and ethanol blended gasoline varies based on the gallons of ethanol blended gasoline distributed statewide in comparison to the total number of gallons of motor fuel distributed. The Department of Revenue determines the percentage based on the number of gallons distributed between January 1 and December 31 of each year. The rates apply for the period beginning the following July 1 and ending June 30 of that fiscal year.

[224] Iowa Code § 452A.3(5).

[225] Iowa Code §§ 452A.4, 452A.6.

[226] Iowa Code § 452A.3(1)-(4). For history of tax rates, see DOR website for annual reports: http://www.state.ia.us/tax/educate/StatReports.html#AnnRep

[227] Iowa Code § 452A.17. See Iowa Code §§ 422.110, 422.111 for income tax credit in lieu of refund.

See the following chart:

Ethanol % Distributed	Ethanol Blended Gasoline Tax	Gasoline Tax
00-50	19.0	20.0
50-55	19.0	20.1
55-60	19.0	20.3
60-65	19.0	20.5
65-70	19.0	20.7
70-75	19.0	21.0
75-80	19.3	20.8
80-85	19.5	20.7
85-90	19.7	20.4
90-95	19.9	20.1
95-100	20.0	20.0[228]

For the 12-month period beginning July 1, 2006, the rates are 19 cents for ethanol blended gasoline and 21 cents for gasoline.[229]

Beginning July 1, 2007, the tax is 20 cents on each gallon of gasoline or ethanol blended gasoline.[230]

ii. Beginning January 1, 2006, there is imposed an excise tax of 17 cents on each gallon of E-85 gasoline. The rate of the excise tax on E-85 gasoline shall be determined based on the number of gallons of E-85 gasoline that are distributed in this state during the previous calendar year. The Department of Revenue shall determine the actual tax paid for E-85 gasoline for each period beginning January 1 and ending December 31. The amount of the tax paid on E-85 gasoline during the past calendar year shall be compared to the amount of tax on E-85 gasoline that would have been paid using the tax rate that was otherwise imposed on regular gas and a difference shall be established. If the difference is equal to or greater than $25,000, the tax rate for E-85 gasoline for the period beginning July 1 following the end of the determination period shall be the rate imposed on regular gas.[231]

4. Revenues.

Revenues from the registration fees and motor fuel taxes are deposited into the Road Use Tax Fund. However, fuel taxes collected from the sales of fuel used in watercraft and aircraft are deposited in special funds.[232] Revenues from the use tax are deposited into a number of funds, including the Road Use Tax Fund.[233]

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[228] Iowa Code § 452A.3(1).

[229] See DOR website: http://www.state.ia.us/tax/taxlaw/taxtypes.html#mvf

[230] Iowa Code § 452A.3(1A).

[231] Iowa Code § 452A.3(1B), (1C).

[232] Iowa Const. Art. VII, § 8; Iowa Code §§ 452A.79, 452A.79A, 452A.82, 452A.84. Iowa Code §§ 328.56 and 452A.79A take effect July 1, 2007. For future text of these sections, see 2006 Iowa Acts ch. 1179, §§ 57, 60, 66.

[233] For Road Use Tax Fund yearly revenue, see Fiscal Services Division's FACTBOOK on its internet site at http://staffweb.legis.state.ia.us/lfb/factbook/factbook.htm

C. Tobacco Taxes (Ch. 453A).

1. Cigarette Tax.

a. History. The Iowa cigarette tax was enacted in 1921 at the rate of 2 cents per package of 20 cigarettes. The tax is currently imposed at the rate of 36 cents per package of 20 cigarettes and 45 cents per package of 25.[234] The tax is imposed on the sale of cigarettes and must be paid by the person making the first sale in Iowa.[235] "First sale" includes the first sale or distribution in this state or the first use or consumption in this state.[236] Proof of tax payment is shown by a stamp affixed to, or stamp imprint upon, each cigarette package.[237]

The cigarette tax is also imposed on little cigars that are defined as tobacco rolls used for smoking which are not cigarettes and which either weigh not more than three pounds per thousand or weigh more than three pounds per thousand but have a retail price of not more than two and one-half cents per little cigar.[238]

b. Revenues. Revenues from the cigarette tax are deposited in the State General Fund. Following are gross State General Fund receipts in millions of dollars collected from the cigarette tax:

FY 2001	$89.6	FY 2004	$87.1
FY 2002	$88.0	FY 2005	$87.4
FY 2003	$88.1	FY 2006	$89.5

2. Tobacco Products Tax.

a. History. The Iowa tobacco products tax is imposed on the wholesale sales price of all tobacco products except cigarettes and little cigars which are taxed as cigarettes. The tax is equal to 22 percent of the wholesale sales price. A tax at the same rate is imposed on the consumer for the storage or use of tobacco products if the previous tax has not been paid.[239]

b. Revenues. Revenues from the tobacco products tax are deposited in the State General Fund. Following are gross State General Fund receipts in millions of dollars collected from the tobacco products tax:

FY 2001	$6.7	FY 2004	$8.0
FY 2002	$7.1	FY 2005	$8.7
FY 2003	$7.4	FY 2006	$9.2

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[234] Iowa Code § 453A.6(1). The tax rate is expressed in mills per cigarette. A mill equals 1/10 of a cent. For history of tax rates, see DOR website for annual reports: http://www.state.ia.us/tax/educate/StatReports.html#AnnRep

[235] Iowa Code § 453A.6(2).

[236] Iowa Code § 453A.1(13).

[237] Iowa Code § 453A.6(3).

[238] Iowa Code §§ 453A.42 (definition), 453A.43(1) (tax imposition).

[239] Iowa Code § 453A.43.

D. Beer and Liquor Taxes/Markup (Ch. 123).

An in-depth discussion of alcoholic beverage regulation in Iowa is provided in the Legislative Guide entitled "Alcoholic Beverages in Iowa."

1. Rates.

Effective in 1972, the beer tax was $4.34 per barrel and wine was subject to the special tax of 15 percent of the price for sale for consumption on the premises. Since 1986 the beer tax is $5.89 per barrel of 31 gallons or fractional part of a barrel.[240] In 1985, the state no longer maintained its monopoly on the wholesale or retail sale of wine and a wine tax of $1.50 per gallon was imposed. Since 1986, the wine tax is imposed at $1.75 per gallon or fractional part of a gallon.[241] The state is still the only wholesaler of liquor for sale by retailers in the state. In 1986, the markup for liquor sold at wholesale by the state was to be up to 60 percent of the price to the state. Since 1987, this markup has been up to 50 percent. The markup on selected kinds of alcoholic liquor may be increased if the average return on all sales of alcoholic liquor does not exceed the wholesale price and the 50 percent markup. An additional bottle surcharge may be assessed to cover costs of providing for proper disposal of the containers.[242]

2. Permit and License Fees.

Beer and wine permits and liquor control licenses are issued by the Alcoholic Beverages Division of the Department of Commerce normally on a yearly basis. But for certain circumstances such permits or licenses may be issued for lesser periods of time. Fees vary depending on the class of permit or license and the locality to which it will apply.

a. Beer Permit Fees, Per Annum:

• Class A (mfg. and sell, or sell at wholesale, for off-premises consumption) and Special Class A (mfg. and sell for on-premises consumption):	$ 250[243]
• Class B (on- or off-premises sale):	
Cities of 10,000 or more	$ 300
Cities between 1,500 and 10,000	$ 200
Cities of less than 1,500	$ 100
Outside of a city	The amount charged in the city nearest the premises[244]
• Class C (grocery store/pharmacy; off-premises sale; retail sales area):	

[240] Iowa Code § 123.136.
[241] Iowa Code § 123.183(1).
[242] Iowa Code § 123.24(4)-(5).
[243] Iowa Code § 123.134(1).
[244] Iowa Code § 123.134(2).

Over 5,000 square feet	$ 300
Between 2,000 and 5,000 square feet	$ 200
Between 1,500 and 2,000 square feet	$ 100
Not more than 1,500 square feet	$ 75[245]
• Special Class B (trains):	$ 100[246]
• Sunday sales for Class B and Class C permittees:	20 percent of regular fee[247]

b. Wine Permit Fees, Per Annum:

• Class A (mfg. and sell, or sell at wholesale, for off-premises consumption):	$ 750[248]
• Class B (retailer):	$ 500[249]
• Class B native (retailer of native wines for off-premises):	$ 25[250]
• Class C native (retailer of native wines for on- or off-premises):	$ 25[251]
• Vintner's certificate of compliance:	$ 100[252]
• Class A (mfg. of native wines):	$ 25[253]

c. Liquor Control Licenses:

• Manufacturers:	$ 350[254]
• Broker's permit:	$ 25[255]
• Class A — Clubs:	
Cities of 2,000 or more and membership in club is 250 or more	$ 600
Cities under 2,000 or membership in club is under 250	$ 400
Veterans' organization — no more than 52 days	$ 200[256]
• Class B — Hotels and Motels:	
Cities of 10,000 or more	$1,300

[245] Iowa Code § 123.134(3).
[246] Iowa Code §§ 123.133, 123.134(4).
[247] Iowa Code § 123.134(5).
[248] Iowa Code § 123.179(1).
[249] Iowa Code § 123.179(2).
[250] Iowa Code § 123.179(3).
[251] Iowa Code § 123.179(4).
[252] Iowa Code § 123.180(1).
[253] Iowa Code § 123.56(4).
[254] Iowa Code § 123.41.
[255] Iowa Code § 123.42.
[256] Iowa Code § 123.36(2).

Cities over 3,000 and less than 10,000	$1,050
Cities of 3,000 or less	$ 800
Outside of a city	The amount charged in the city nearest the premises[257]
• Class C — Commercial establishment:	
Cities of 10,000 or more	$1,300
Cities over 1,500 and less than 10,000	$ 950
Cities of 1,500 or less	$ 600
Outside of a city	The amount charged in the city nearest the premises[258]
• Special Class C — Beer and wine only:	
Cities of 10,000 or more	$ 450
Cities over 1,500 and less than 10,000	$ 300
Cities of 1,500 or less	$ 150
Outside of a city	The amount charged in the city nearest the premises[259]
• Class D — Passenger carriers:	
Watercraft:	$ 150
Trains:	$ 500
Air common carrier:	$500 plus $7 per gallon of liquor sold, given away, or dispensed by an air common carrier in or over the state[260]
• Class E — Off-premises and to other licensees:	$750 to $7,500[261]
• Sunday sales for clubs, hotels and motels, and commercial establishments:	20 percent of regular fee[262]
• Surcharge payable only to the state (on Classes A, B, and C):	30 percent of regular fee[263]

[257] Iowa Code § 123.36(3).
[258] Iowa Code § 123.36(4).
[259] Iowa Code § 123.36(7).
[260] Iowa Code § 123.36(5).
[261] Iowa Code § 123.36(9). Fee based upon square footage, location of premises, and population of locality. See Iowa Admin. Code 185- 17.8 for fee schedule.
[262] Iowa Code § 123.36(6).
[263] Iowa Code § 123.36(10).

3. Revenues.

Beer and wine revenues collected and liquor fees and profits not used for remittances to local governments, to pay other obligations, for purchase of liquor, or for promotion of beer and wine produced in Iowa are deposited into the State General Fund.[264]

Collections and transfers deposited into the State General Fund in millions of dollars:

	Beer/Wine Tax	Liquor Fees and Profits
FY 2001	$13.6	$46.5
FY 2002	$13.8	$47.5
FY 2003	$13.9	$49.0
FY 2004	$14.0	$58.0
FY 2005	$14.0	$59.0
FY 2006	$14.2	$63.8

4. Persons Subject to Tax, Licenses, or Permits.

Persons who manufacture and sell beer or wine at wholesale or persons who import beer or wine for sale at wholesale are subject to the taxes.[265] Manufacturers, vintners, bottlers, importers, and sellers of beer, wine, or liquor are required to obtain licenses or permits.[266]

5. Computations and Filing.

Persons subject to the beer tax must multiply the beer barrel tax rate by the number of barrels or fraction of barrels sold at wholesale during the previous month. Persons subject to the wine gallonage tax must multiply the wine gallonage tax rate by the number of gallons or fraction of gallons sold at wholesale during the previous month. Returns must be filed monthly along with the tax due for the previous month.[267]

6. Liquor Markup.

Code section 123.24, subsection 4, requires the price of liquor sold by the Alcoholic Beverages Division to include the wholesale price paid by the division plus a markup of up to 50 percent. Because the division is the only entity that may sell liquor at wholesale in this state, this 50 percent markup is characterized by some persons as a state tax. It can be argued that it is not a tax since all wholesalers have to mark up their products in order to make a profit and, although a markup of 50 percent may be high, the law does not require the markup to be 50 percent but generally limits it to up to 50 percent. No matter how it is characterized, the retailer will have to include the markup amount in determining

[264] Iowa Code §§ 123.53, 123.143. See Iowa Code §§ 15E.117, 123.183, 175A.5 for provisions relating to promotion of beer and wine made in Iowa.

[265] Iowa Code §§ 123.136, 123.183.

[266] Iowa Code §§ 123.30, 123.124, 123.173.

[267] Iowa Code §§ 123.137 (beer sales), 123.184 (wine sales).

the price set on wares. This can be very important for retail liquor sales in areas along the state's borders which adjoin a state where the retailer's wholesale costs may be less because of a lower markup.

E. Real Estate Transfer Tax (Ch. 428A).

The real estate transfer tax is imposed on the transfer of real estate. It was first effective July 4, 1965. The tax was imposed if consideration exceeded $1,000 at a rate of $1.10 plus 55 cents for each $500 or fraction thereof in excess of $1,000. Since July 1, 1991, the tax is imposed at the rate of 80 cents for each $500 or fraction thereof in excess of $500 paid for the real property transferred. The tax is payable when the deed, or other instrument conveying the real property, is presented for recording.[268] Payment of the tax is noted on the instrument of transfer at the time the transfer is recorded.[269]

Real estate transfer tax revenues are divided between the county and the state. Seventeen and one-fourth percent of tax receipts are retained by the county for deposit into the county general fund. The remainder is remitted to the State Treasurer where 95 percent is deposited in the State General Fund and 5 percent is transferred to the state Shelter Assistance Fund.[270] When multiple parcels of land from different counties are sold, the tax is paid to each recorder in the county where the parcel is located. To enable the tax to be paid when a transfer is made involving parcels located in more than one county, separate declarations of value are to be filed with the county recorder in each county where the parcel is located.[271] This will permit each county to retain 17.25 percent of the tax on the amount of value allocated to the county.

F. Automobile Rental Excise Tax (Ch. 423C).

Beginning July 1, 1992, an excise tax at the rate of 5 percent is imposed on the rental price of any automobile if the automobile is rented for 60 days or less and the rental transaction is taxed under Iowa sales or use tax law. The tax imposed is in addition to the Iowa state sales or use tax. An "automobile" is a motor vehicle subject to registration in any state and designed primarily for carrying nine or fewer passengers.[272]

IV. Death Taxes.

Iowa law currently contains four death-related taxes: the inheritance tax (effective 1896), Code chapter 450; the generation skipping transfer tax (effective May 1978), Code chapter 450A; the qualified use inheritance tax (effective July 1982), Code chapter 450B; and the Iowa estate tax (effective 1929), Code chapter 451.

A. Inheritance Tax (Ch. 450).

The inheritance tax is imposed on any person, subject to specific exemptions, who becomes beneficially entitled to any taxable property or interest by any method of transfer.[273] Estates that do not exceed the sum of $25,000 after deduction of liabilities are not subject to

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[268] Iowa Code § 428A.1.
[269] Iowa Code § 428A.5.
[270] Iowa Code § 428A.8.
[271] Iowa Code § 428A.1.
[272] Iowa Code §§ 423C.2(1), (5), (6), 423C.3.
[273] Iowa Code § 450.5. See Iowa Code §§ 450.2, 450.3 for the property that is taxable.

tax. In addition, property passing for a charitable, educational, or religious purpose; to nonprofit public libraries or art galleries; to hospitals in Iowa; or to a municipal corporation for purely public purposes is not subject to tax.[274]

Beginning January 1, 1988, surviving spouses were made exempt from the inheritance tax. As of July 1, 1997, all lineal ascendants and descendants, including adopted and biological children and stepchildren, are exempt.[275]

Inheritance tax rates are 5 percent to 15 percent depending upon the amount of the inheritance and the relationship of the recipient to the decedent.[276] In most instances, the return must be filed and tax paid on or before the last day of the ninth month after the death of the decedent.[277] However, a return is not required to be filed if the estate is not required to file for federal estate tax purposes and the property passes to individuals that are exempt from the state inheritance tax.[278]

B. Generation Skipping Transfer Tax (Ch. 450A).

The federal generation skipping transfer tax credit for state generation skipping transfer taxes paid does not apply to estates of decedents dying, and generation skipping transfers, after December 31, 2004.[279]

The amount of state generation skipping transfer tax due is equal to the amount of the maximum federal generation skipping transfer tax credit allowable for the state generation skipping transfer tax actually paid. Prior to the temporary termination of the credit, the maximum federal credit was 5 percent of the federal tax imposed on the transfer.[280] If the situs of the property subject to the transfer tax is located in more than one state, the amount of the tax credit is prorated to Iowa based upon the value of the property located in Iowa.[281] Iowa inheritance tax paid is not allowed as a credit against the generation skipping transfer tax, although inheritance tax paid on the same property is allowed as a credit against state estate tax liability.[282]

The law contains a limitation on the imposition of the generation skipping transfer tax. The limitation states that the state generation skipping transfer tax shall not result in the imposition of a federal and state generation skipping transfer tax obligation greater than the tax payable had Code chapter 450A not been enacted.[283]

C. Qualified Use Inheritance Tax (Ch. 450B).

A qualified heir, who is transferred property used in farming or in a trade or business other than farming at the death of the decedent, or within three years of the decedent's death, may

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[274] Iowa Code § 450.4(1)-(3).

[275] Iowa Code §§ 450.9, 450.10(6).

[276] Iowa Code § 450.10.

[277] Iowa Code §§ 450.6, 450.45, 450.47.

[278] Iowa Code § 450.22(2), (3).

[279] IRC § 2604(c). See Pub. L. No. 107-16, § 901, for the sunset of IRC § 2604(c) for generation skipping transfers after December 31, 2010. Thus Iowa should not receive any revenue from its generation skipping transfer tax from estates of decedents dying on or after January 1, 2005, and before January 1, 2011.

[280] Iowa Code § 450A.2; IRC § 2604.

[281] Iowa Code § 450A.2.

[282] Iowa Admin. Code 701-88.3(3).

[283] Iowa Code § 450A.14.

elect, if a similar election has been made for federal estate tax purposes, a lower valuation for the property for inheritance tax purposes, as long as the qualified property continues to be used in farming or a trade or business other than farming.[284] If within 10 years and before the death of the qualified heir, the qualified use of the property ceases or the qualified heir transfers the property to someone other than a relative, inheritance tax becomes due as if the qualified use election had not been made.[285]

A qualified heir, according to the federal Internal Revenue Code, which applies to the state tax, is any of the following: (1) the spouse of the decedent; (2) an ancestor of the decedent; (3) a lineal descendant of the decedent, decedent's spouse, or decedent's parent; or (4) the spouse of any lineal descendant described in item (3).[286]

D. Iowa Estate Tax (Ch. 451).

The Iowa estate tax imposed is equal to the amount of the federal estate tax credit allowable for state death taxes actually paid. The federal estate tax credit for state death taxes actually paid does not apply to estates of decedents dying after December 31, 2004.[287] Prior to the temporary termination of the credit, the amount of the federal estate tax credit varied depending on the size of the federal adjusted taxable estate. If the total net estate is subject to the jurisdiction of Iowa courts, the total federal tax credit is imposed by Iowa. If only part of the net estate is subject to Iowa jurisdiction, only a prorated amount of credit is imposed based upon valuation of the property in Iowa.[288] The amount of Iowa estate tax which is actually due and payable is an amount equal to the federal estate tax credit less the Iowa inheritance tax paid on the property included in the gross estate of the decedent. Therefore, the Iowa estate tax due and payable is the amount by which the maximum estate tax credit allowable under the federal Internal Revenue Code exceeds the Iowa inheritance tax paid. [289] As an example, assume all property in the estate is located in Iowa, the federal estate tax credit equals $400, and the amount of Iowa inheritance tax paid is $300; then the amount of state estate tax equals $100 ($400-$300). If the Iowa inheritance tax equaled or exceeded $400, no state estate tax is owed.

Payment of the tax must be paid by the end of the ninth month after the death of the decedent.[290] The taxpayer does not have the option of claiming as a credit on the federal estate tax return only the amount of the state inheritance tax paid. The full amount of the federal credit must be claimed.[291]

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[284] Iowa Code § 450B.2; IRC § 2032A.

[285] Iowa Code §§ 450B.3, 450B.5.

[286] IRC § 2032A(e).

[287] IRC § 2011(f). See Pub. L. No. 107-16, § 901, for the sunset of IRC § 2011(f) for estates of decedents dying after December 31, 2010. Thus Iowa should not receive any revenue from its estate tax from estates of decedents dying on or after January 1, 2005, and before January 1, 2011.

[288] Iowa Code § 451.2; IRC § 2011.

[289] Iowa Code § 451.2; Iowa Admin. Code 701-87.3(1).

[290] Iowa Code § 451.6.

[291] Iowa Code § 451.8; Iowa Admin. Code 701-87.3(2).

E. Revenues.

Revenue collected from Iowa death taxes, namely inheritance and estate taxes, are deposited into the State General Fund. Following are actual State General Fund receipts in millions of dollars collected from Iowa death taxes:

FY 2001	$104.6	FY 2004	$80.1
FY 2002	$100.4	FY 2005	$78.4
FY 2003	$88.1	FY 2006	$73.1

V. Racing and Gaming Taxes (Chs. 99D and 99F).

An in-depth discussion of gambling in Iowa is provided in the Legislative Guide entitled "Gambling in Iowa."

A. Rates and Fees.

1. Pari-Mutuel Wagering.

The tax on pari-mutuel wagering, Code chapter 99D, is imposed at a rate of 6 percent of the gross sum wagered at each horse race meeting and at a rate of 4 to 6 percent of the gross sum wagered based upon the gross amount wagered during the dog racing season. Credits are allowed on the amount of tax to be used for debt retirement, operating expenses, and capital improvements. A 2 percent tax on the gross sum wagered on races simultaneously telecast is imposed. A license fee of $200 for each racing day is also charged. Legislation enacted in 2004 eliminated the 50 cent per person admission fee and instead imposed a regulatory fee in an amount that includes the cost of two special agents for each racetrack if the racetrack does not have a table games license, or three special agents if the racetrack has a table games license, plus the direct and indirect support costs of the Division of Criminal Investigation's activities concerning racetracks.[292]

2. Excursion Boats and Gambling Games.

In 1989, a tax on gambling games on excursion boats, pursuant to Code chapter 99F, was imposed at a rate of 5 percent on the first $1 million of adjusted gross receipts, 10 percent on the next $2 million of adjusted gross receipts, and 20 percent on any amount of adjusted gross receipts in excess of $3 million, plus an admission fee set by the state Racing and Gaming Commission. Since 1994, gambling games have been allowed at pari-mutuel dog or horse tracks at the same tax rates. Beginning January 1, 1997, the tax rates were increased to 22 percent on adjusted gross receipts over $3 million from gambling games at racetrack enclosures with the rate to increase by 2 percent each calendar year until the rate is 36 percent. The tax rates on gambling games on excursion boats were not increased. The admission fee for racetrack enclosures was

[292] Iowa Code §§ 99D.14, 99D.15.

set at the same fee as for the racetrack itself. An annual license fee equal to $5 per person capacity is charged the excursion boats.

The Iowa Supreme Court declared unconstitutional the difference in the tax rates on excursion boat gambling and gambling at racetrack enclosures because it violated equal protection provisions of the Iowa Constitution. Because of the decision, the rate on adjusted gross receipts over $3 million from gambling games at racetrack enclosures was reduced to 20 percent as of June 12, 2002.[293]

3. Response to Supreme Court Ruling.

Legislation enacted in 2004 made changes in the taxes and fees under Code chapter 99F relating to gambling games at racetracks and on excursion gambling boats.[294] The tax on adjusted gross receipts from gambling games shall be imposed on a fiscal year, and not a calendar year, basis. The tax on adjusted gross receipts from gambling games is 5 percent on the first $1 million and 10 percent on the next $2 million. For excursion gambling boats, the rate on receipts over $3 million is 22 percent. For a racetrack with no other licensee located in the same county, the rate is 24 percent. If the racetrack is located in the same county as another licensee, and the racetrack does not have a table games license or had adjusted gross receipts from gambling games in the prior fiscal year of less than $100 million, the rate is 22 percent. If the racetrack is located in the same county as another licensee, and the racetrack has a table games license and had adjusted gross receipts from gambling games in the prior fiscal year of $100 million or more, the rate is 22 percent until the racetrack's table games operation becomes operational, at which point the rate will be 24 percent.[295]

The 2004 legislation also created additional assessments and taxes on adjusted gross receipts from excursion gambling boats and racetracks. For racetracks, a 2002-2004 racetrack enclosure gambling games tax was imposed on adjusted gross receipts received over $3 million for the fiscal year beginning July 1, 2002, and for the fiscal year beginning July 1, 2003. The previous 20 percent rate was modified to provide for a rate for both fiscal years of 22 percent for a racetrack with adjusted gross receipts from gambling games of less than $100 million, and a rate for both fiscal years of 24 percent for a racetrack with adjusted gross receipts of $100 million or more. For excursion gambling boats licensed as of January 1, 2004, a 2005 and 2006 rebuild Iowa infrastructure assessment is imposed at the rate of 2.152 percent each year on estimated adjusted gross receipts of each boat for the fiscal year beginning July 1, 2004, as determined prior to May 6, 2004. The assessment is to be paid by June 1, 2005, and June 1, 2006. The assessments paid by each excursion gambling boat shall be a credit on taxes required to be paid to the extent of 20 percent for each of five fiscal years beginning July 1, 2010.[296]

The legislation provided for the issuance of a table games license to racetracks currently authorized to conduct gambling games. Previously, racetracks could only offer slot machines and not table games of chance, such as blackjack and poker. The

[293] Racing Assoc. of Central Iowa v. Fitzgerald, 648 N.W.2d 555 (Iowa 2002) and 675 N.W.2d 1 (Iowa 2004).
[294] 2004 Iowa Acts ch. 1136 (H.F. 2302).
[295] Iowa Code § 99F.11.
[296] 2004 Iowa Acts ch. 1136, §§ 63, 64.

legislation required the Racing and Gaming Commission to issue the table games license to a racetrack upon immediate payment of the applicable license fee and submission of an application to the commission by June 1, 2005. The legislation established the applicable license fee at $3 million for a racetrack with adjusted gross receipts from gambling games of less than $100 million, and at $10 million for a racetrack with adjusted gross receipts of $100 million or more. However, a table games license shall not be issued to a racetrack required to pay the $3 million fee unless every licensee within the same county files an agreement with the commission authorizing table games and permitting each excursion gambling boat licensee to operate a moored barge. The license fees paid shall be a credit on taxes required to be paid to the extent of 20 percent for each of five fiscal years beginning July 1, 2008.[297]

The legislation provided for fees to be paid if a new license to conduct gambling games is granted. A license fee of $5 million for a licensee to be located in a county with a population of 15,000 or less, $10 million for a licensee to be located in a county with a population of more than 15,000 and less than 100,000, and $20 million for a licensee to be located in a county with a population of 100,000 or more was established. Twenty percent of the fee is payable upon filing an application for a license and 20 percent is payable each of the next four years thereafter.[298]

The legislation eliminated the specific imposition of an admission fee for racetracks and excursion gambling boats and amended language to reflect that the fees charged boats and racetracks with gambling games for enforcement costs are a regulatory fee. For racetracks specifically, the 50 cents per person admission fee was eliminated and instead a regulatory fee, in an amount that includes the cost of two special agents for each racetrack if the racetrack does not have a table games license, or three special agents if the racetrack has a table games license, plus the direct and indirect support costs of the Division of Criminal Investigation's activities concerning racetracks, was imposed.[299]

Legislation enacted in 2005 increased the number of gaming enforcement officers the Racing and Gaming Commission can consider in establishing regulatory fees charged for certain larger excursion gambling boats. For excursion gambling boats with a patron capacity of at least 2,000 persons, the legislation provides that the salary costs of up to five gaming enforcement officers, instead of four such officers used for all other boats, shall be used by the commission in setting regulatory fees.[300]

B. Monitor Vending Machines.

Legislation enacted in 2006 prohibited the Iowa Lottery Authority from allowing retailers to offer monitor vending machines (TouchPlay machines) to the public. The legislation, including the prohibition on machines, took effect March 20, 2006, but retailers who acquired a monitor vending machine prior to that date could continue to offer the machine to the public through May 3, 2006. On or after May 4, 2006, monitor vending machines are no longer permitted. If

[297] Iowa Code § 99F.4A.
[298] Iowa Code § 99F.10(7).
[299] Iowa Code §§ 99D.14(2), 99F.4A(4), 99F.10(4). Note: Iowa Code § 99F.10(3) allows voters to approve the charging of an admission fee.
[300] 2005 Iowa Acts ch. 48; Iowa Code § 99F.10(4).

revenues are derived from monitor vending machines on or after May 4, 2006, an excise tax at the rate of 65 percent shall be imposed on any net monitor vending machine revenue receipts generated.[301]

C. Revenues.

Racing and gaming revenues are generated for both the state and local governments.[302] Since fiscal year 1995-1996, the first $60 million from gambling tax revenues are to be deposited into the State General Fund.[303]

VI. Unemployment Compensation Tax (Ch. 96).

A. Rates and Surcharge.

1. Unemployment Compensation Fund — Contribution Table.

The unemployment compensation tax law was enacted in 1936. The Department of Workforce Development administers this law. Under the reserve ratio tax system for financing workers' job insurance, the Unemployment Compensation Fund became insolvent in 1982 and remained in the red through mid-year 1985.

During subsequent years, the General Assembly made several significant changes to the unemployment compensation tax law that enabled the fund to repay moneys borrowed from the federal government. In 1987, a new benefit ratio array method to determine an employer's unemployment compensation tax was created. The enactment of the benefit ratio array system enabled the state to continue increasing the fund reserve to a financially sound level.

Eight tax tables, containing 21 brackets each, are used to ensure the solvency of the fund. To maintain the solvency of the fund, a formula is established to automatically change tables when more revenue is needed or when less revenue is needed.[304] For the 1995 through the 1999 calendar years, contributions were paid according to tax table 8, which is the lowest contribution tax table available. For the 2000 through the 2002 calendar years, contributions were paid according to table 7. For the 2003 through 2005 calendar years, contributions were paid according to table 6. For the 2006 calendar year, contributions will continue to be paid according to table 6.

[301] 2006 Iowa Acts ch. 1005; Iowa Code §§ 99G.3(7), 99G.30A.

[302] For total racetrack and riverboat gambling revenues, see Fiscal Services Division's FACTBOOK on its internet site at http://staffweb.legis.state.ia.us/lfb/factbook/factbook.htm

[303] Iowa Code § 8.57(6)(e).

[304] Iowa Code § 96.7(2)(d).

Employer's Rank	Table 6 Tax Rate	Employer's Rank	Table 6 Tax Rate
1, 2, and 3	no tax	13	1.1 percent
4	.1 percent	14	1.3 percent
5	.2 percent	15	1.6 percent
6	.3 percent	16	1.9 percent
7	.4 percent	17	2.3 percent
8	.5 percent	18	3.1 percent
9 and 10	.6 percent	19	4.2 percent
11	.7 percent	20	5.8 percent
12	.9 percent	21	8.0 percent[305]

Every July 1, the tax table to be used for the following calendar year is determined.[306] On or before September 5, the Department of Workforce Development makes available to employers the contribution rate table to be used for the following year. The method is to divide the current reserve fund ratio by the highest benefit cost ratio. The current reserve fund ratio equals the sum of the total funds available plus a statutory amount divided by the total wages paid in covered employment during the first four calendar quarters of the previous five calendar quarters. The statutory amount to be added to the total funds available is the following: $20 million on the July 1, 2004, computation date; $70 million on July 1, 2005; $120 million on July 1, 2006; and $150 million on July 1, 2007, and subsequent computation dates. The highest benefit cost ratio is the highest of the benefit ratios computed for each of the previous 10 years. However, the highest benefit cost ratio shall not be less than .02. The benefit ratio for each year equals the total benefits paid for the year divided by the total wages paid during that year.

The tax rate table in effect shall be the following tax rate table if the current reserve fund ratio, divided by the highest benefit cost ratio:

Equals or Exceeds	But Is Less Than	Tax Rate Table
---	0.3	1
0.3	0.5	2
0.5	0.7	3
0.7	0.85	4
0.85	1.0	5
1.0	1.15	6
1.15	1.30	7
1.30	---	8[307]

[305] Iowa Code § 96.7(2)(d); see chart of contribution rate tables.

[306] Iowa Code § 96.19(8) (definition of "computation date").

[307] Iowa Code § 96.7(2)(d). For history of revenues, see Department of Workforce Development website for revenue report: http://www.iowaworkforce.org/lmi/uistats/gtfrevenue.html

2. Contribution Surcharge.

An administrative contribution surcharge at a rate, subject to a surcharge formula, equal to .1 percent of the taxable wages subject to federal unemployment tax ($7,000 for calendar years 2002 and 2003) is imposed. The surcharge formula is to be developed by the department that provides a target revenue level of no greater than $6.525 million annually beginning with the 2002 calendar year. If the surcharge generates more than the target revenue amount, the amount to be collected for the 2003 calendar year is reduced accordingly. The surcharge percentage is capped at $7 per employee. The surcharge percentage is added to the contribution rate.[308] The surcharge limitations of $6.525 million annually and $7 per employee first became effective for the 2002 calendar year.[309]

The administrative contribution surcharge was scheduled to be repealed July 1, 2003, for contribution rates applicable for the 2004 and subsequent calendar years.[310] Subsequently, the General Assembly extended the surcharge to the 2004, 2005, and 2006 calendar years.[311] However, the Iowa Supreme Court in *Rants v. Vilsack,* 684 N.W.2d 193 (Iowa 2004), ruled that legislation invalid for lack of the Governor's timely signature, and the General Assembly acknowledged the July 1, 2003, repeal of the surcharge.[312]

3. Unemployment Compensation Reserve Fund.

An Unemployment Compensation Reserve Fund was established in May 2003 which is separate and distinct from the Unemployment Compensation Fund. An initial appropriation of $40 million of federal moneys was made to the reserve fund. Moneys in the reserve fund are only to be used to pay unemployment benefits to the extent moneys in the Unemployment Compensation Fund are insufficient to pay benefits during a calendar quarter. If the balance in the reserve fund on July 1 (the computation date) is less than $150 million, a percent of the contributions for the following calendar year shall be deemed to be contributions to the reserve fund. The director of the department is to determine the percentage, which shall be not more than 50 percent of the contribution rate or $50 million per calendar year. In addition, employers who are assigned a contribution rate of 5.4 percent shall not have any contributions deposited in the reserve fund.[313]

B. Entities Subject to Tax.

The following persons are subject to the unemployment compensation tax:

An employer that has one or more employees performing covered services for a portion of a day in at least 20 different calendar weeks or whose payroll in any calendar quarter is $1,500 or more, an employer of agricultural laborers paying cash wages of $20,000 or more in a calendar quarter or employing 10 or more workers in 20 separate weeks, and an employer of domestic help paying cash wages of $1,000 or more during a calendar quarter. Beginning

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[308] 2003 Iowa Code § 96.7(12).
[309] 2001 Iowa Acts 1st Ex. ch. 2, §§ 1, 4.
[310] 2003 Iowa Code § 96.7(12)(d).
[311] 2003 Iowa Acts 1st Ex. ch. 1, §§ 127-129.
[312] 2004 Iowa Acts 1st Ex. ch. 1001, §§ 30-32.
[313] Iowa Code § 96.9(8); see 2003 Iowa Acts ch. 179, § 25.

May 2001, an Indian tribe is considered an employer in the same manner and under the same terms as a governmental entity.[314] However, governmental entities, including Indian tribes and nonprofit organizations, may choose to reimburse the trust fund for benefits paid rather than make contributions under the tax tables.[315]

C. Computation of Employer Rank.

Each employer is given a rank based upon the employer's benefit ratio, which is the amount obtained by dividing the employer's five-year average unemployment benefit charges by the employer's five-year average taxable payroll amount. This ratio is then compared to all other employers to establish the employer's rank with the lowest ratio being ranked 1. This rank is then used to determine the percent of tax to be levied on the taxable wage base.[316] For example, if an employer is ranked 12 on tax table 6, the tax rate would be .9 percent. An employer's taxable wage base equals the greater of two-thirds of the statewide average yearly wage or the taxable wage base for the federal unemployment tax.[317] The taxable wage base for calendar year 2005 is $20,400 and for calendar year 2006 is $21,300.

A new employer is given the rate in rank 12 and will pay at the rate from the appropriate tax table but at not less than a rate of 1 percent. A new construction employer is given the rank of 21.[318]

Beginning with the 2001 calendar year, an employer is relieved of charges for unemployment benefits paid due to a major natural disaster declared by the President of the United States under the federal Disaster Relief Act of 1974, if the individual who was paid the state benefits would have been eligible for unemployment assistance under the federal Act.[319]

The department is authorized to investigate the sale or transfer of an organization, trade, or business, and to determine whether the buying employer should have the contribution rate of the selling employer or the rate of a new employer. The department shall make the determination based on objective factors that may include an evaluation of the sales price, the continuation of the business activity, and whether the employees of the original business were hired to perform different work.[320] The department is required to assign an additional penalty contribution rate of 2 percent of taxable wages and to assess civil penalties against a person who violates the provisions relating to the sale or transfer of an organization, trade, or business if such sale or transfer was made in order to receive a reduced contribution rate. Such a violation constitutes an aggravated misdemeanor. Civil penalties collected shall be deposited in the Unemployment Trust Fund and shall be used for payment of unemployment benefits.[321]

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[314] Iowa Code §§ 96.19(16) (definition of "employer"), 96.7(9).
[315] Iowa Code § 96.7(7)-(9).
[316] Iowa Code § 96.7(2)(d).
[317] Iowa Code § 96.19(37) (definition of "taxable wages").
[318] Iowa Code § 96.7(2)(c).
[319] Iowa Code § 96.7(2)(a).
[320] Iowa Code § 96.7(2)(b).
[321] Iowa Code § 96.16(5).

D. Filing Dates.

The amount of taxes due is determined for each calendar quarter and tax payments are due at the end of the month next following that quarter.[322] If a percent of the regular contribution rate is designated a reserve contribution rate, that portion of the payments received shall be credited to the Unemployment Compensation Reserve Fund.[323]

VII. Environmental Protection Charge (Ch. 424).

A. Rates and Computation.

The environmental protection charge was enacted in 1989 at a rate set by the Iowa Comprehensive Petroleum Underground Storage Tank Board to generate $12 million in annual revenue. The rate beginning with the fiscal year 1995-1996 is to be set by the board to generate $17 million.[324] The charge is based upon the amount of leakage of petroleum into the environment (diminution). It is computed by multiplying the total volume of petroleum deposited into the tank by one-tenth of 1 percent (diminution rate), then multiplying this product by the cost factor. For fiscal year 1995-1996 and succeeding fiscal years, the cost factor is the rate the board has determined will reasonably generate $17 million for each fiscal year.[325]

B. Revenues.

The revenues collected are deposited into the Road Use Tax Fund because the charge is a tax on motor fuel.[326] However, a portion of the use tax revenues collected from the use tax on sales and certain leases of motor vehicles, which would have been deposited into the Road Use Tax Fund, are designated to be paid into the Iowa Comprehensive Petroleum Underground Storage Tank Fund in an amount not to exceed $17 million.[327]

C. Entities Subject to Tax.

An owner or operator of a petroleum underground storage tank or owner or operator of an aboveground petroleum storage tank located at a retail motor vehicle fuel outlet who is required by state or federal law to maintain proof of financial responsibility is subject to the tax.[328]

D. Filing Dates.

Environmental protection charge returns must be postmarked by the last day of the month following the close of each calendar quarter.[329]

E. Future Repeal.

The environmental protection charge is to be repealed effective June 30, 2016.[330]

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[322] Iowa Code § 96.7(1); Iowa Admin. Code 871-23.8.
[323] Iowa Code § 96.9(8).
[324] Iowa Code § 424.3.
[325] Iowa Code § 424.3.
[326] Iowa Code § 424.7(4).
[327] Iowa Code § 423.43(1)(a).
[328] Iowa Code §§ 424.3(1), 424.2(12).
[329] Iowa Code § 424.8.
[330] Iowa Code § 424.19.

VIII. Tax on Marijuana and Controlled Substances (Ch. 453B).

A. Rates.

The tax on marijuana and controlled substances was effective September 1, 1990. The rates are $5 for each gram or portion of a gram of processed marijuana; $250 for each gram or portion of a gram of any taxable substance sold by weight other than marijuana; $750 for each unprocessed marijuana plant (effective July 1, 1995); and $400 on each 10 dosage units or portion of 10 units of a taxable substance other than unprocessed marijuana plants, that is not sold by weight.[331] Stamps, labels, or other official indicia are to be affixed to the taxable substance to indicate that the tax has been paid. However, the minimum purchase price to be paid for any stamps, labels, or indicia is $215.[332] Revenues collected are deposited into the State General Fund.[333]

B. Entities Subject to Tax.

Dealers of marijuana or taxable substances are subject to the tax unless the tax has been paid under this chapter as evidenced by a stamp, label, or other indicia permanently affixed to the taxable substance. The tax is due and payable immediately upon manufacture, production, acquisition, purchase, or possession by the dealer.[334] The dealer receives a credit for any taxes paid to another state or local government on the same substance.[335] A taxable substance is a controlled substance, counterfeit substance, or simulated controlled substance, marijuana, or a mixture of materials containing any of those.[336]

C. Confidentiality.

Notwithstanding any contrary law, the Director of Revenue or employees of the department are prohibited from revealing information obtained pursuant to the chapter from a dealer and information obtained pursuant to the chapter from a dealer is prohibited from being used against the dealer in any criminal proceedings.[337]

D. Constitutionality.

Although the United States and Iowa Supreme Courts have not ruled on the constitutionality of the Iowa drug stamp law, the highest courts in other states have ruled on their states' drug stamp laws which are very similar to Iowa's law. The decisions in the following states found no violation of the double jeopardy clause or the due process clause of the U.S. Constitution: Connecticut, Indiana, Kansas, Nebraska, North Carolina, South Carolina, and Utah.

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[331] Iowa Code § 453B.7.
[332] Iowa Code § 453B.8.
[333] Iowa Code § 453B.2.
[334] Iowa Code § 453B.3.
[335] Iowa Code § 453B.13.
[336] Iowa Code § 453B.1(10).
[337] Iowa Code § 453B.10.

IOWA SALES AND USE TAX: TAXABLE SERVICES

The Code of Iowa and the Iowa Department of Revenue are the primary sources used in compilation of this Appendix A.

TAXABLE SERVICES

aircraft lease or rental, 60 days or less
alteration and garment repair
armored car services
bank and financial institution service charges
barber and beauty services
battery, tire, and allied services
boat repair, except for repair on certain vessels used in interstate commerce
cable/pay television fees
camera repair
campgrounds
carpentry
carpet and upholstery cleaning and repair
communication services excluding internet access fees
dance school and dance studio
dating services
demolition
drain cleaning; unplugging toilets, sinks, and sewers
dry cleaning, pressing, dyeing, and laundering
electrical and electronic repair and installation
employment and executive search agencies
excavating and grading
exterminators
farm implement repair of all kinds
flying service and instruction
furniture repair and cleaning
fur storage and repair
garbage collection and disposal, nonresidential commercial only
golf and country clubs and all commercial recreation fees, dues, and charges
gun repair
house/building moving
household appliance, television, and radio repair
investment counseling
janitorial and building maintenance or cleaning; nonresidential only
jewelry and watch repair
landscaping, lawn care, and tree trimming and removal
limousine, including driver
machine operator fees
machine repair of all kinds
massage, unless performed by a licensed massage therapist
mini-storage

motor repair
motor vehicle, recreational vehicle, and recreational boat rental when rented without a driver or operator
motorcycle, scooter, and bicycle repair
oilers and lubricators on vehicles and machines
office and business machine repair
painting, papering, and interior decorating
parking facilities
pet grooming
pipe fitting
plumbing, including drain cleaning and unplugging toilets, sinks, and sewers
reflexology
roof, shingle, and glass repair
security and detective services
sewage services; nonresidential commercial only
sewing and stitching
shoe repair and shoeshine
sign construction and installation
storage warehouse or lockers of raw agricultural products
storage of household goods
swimming pool cleaning and maintenance
tanning beds or tanning salons
taxidermy
telephone answering service and telephone services
test laboratories, except tests on humans and animals
tin and sheet metal repair
tree trimming and removal
turkish baths and reducing salons
vehicle repair
vehicle wash and wax
water conditioning and softening
weighing
welding
well drilling for repair only
wood preparation (i.e. stripping, cleaning, sealing)
wrapping, packing, and packaging of merchandise other than processed meat, fish, fowl, and vegetables
wrecker and towing

NOTE: The sale of the following services are considered sales of tangible personal property and are taxable: engraving, photography, retouching, printing and binding; vulcanizing, recapping, and retreading tires; prepaid telephone calling cards and prepaid authorization numbers; optional warranty contracts.

EXCEPTIONS:

Construction
When services are performed on or connected with new construction, reconstruction, alteration, expansion, or remodeling of a building or structure, they are exempt from sales and use tax. Repair services remain taxable.

Employee Services
Services rendered, furnished or performed for an “employer” are exempt.

Exempt Entities
Services provided to the following entities are exempt from sales and use tax: Iowa private nonprofit educational institutions, the federal government, Iowa governmental subdivisions, Iowa government agencies, certain nonprofit care facilities, nonprofit museums and nonprofit legal aid organizations. However, services provided to most nonprofit entities, churches and religious organizations are usually taxable.

Purchases for Resale
Tangible personal property purchased by one who is engaged in the performance of a service may be purchased for resale and is not subject to tax if (1) both the provider and the user of the service intend that the property will be sold, (2) the property is transferred to the customer in a form or quantity capable of a fixed or definite price value, and (3) the sale of the identifiable piece or quantity of property is evidenced or shown by a separate charge.

Tangible personal property not sold as specified above is considered to be consumed by the purchaser who is engaged in performing a service and is subject to sales/use tax at the time of purchase.

Example: A beauty or barber shop purchases shampoo and other items to be used in the performance of its service. Tax is due at the time the shop buys the items from its supplier. Tax is due because the items are not transferred to the customer in a form or quantity capable of a fixed or definite price value and because the items are not specifically invoiced.

Services for Resale
Services purchased for resale are exempt from sales and use tax. A service is purchased for resale when the person who is contracted to perform the service subcontracts another to perform the service.

Example: An auto repair shop contracts with a customer to repair a damaged car. The shop does most of the repairs, but subcontracts the repair of the radiator to another shop. No sales tax is charged to the shop for repairing the radiator since the service was purchased for resale to the owner of the car. Tax is paid by the customer to the original repair shop.

Restoring Tangible Property
Similar to services for resale, services that recondition or repair tangible personal property are exempt from sales and use tax when that property is normally sold in the regular course of the

retailer's business. Sales and use tax will be paid when the property is finally sold to a consumer.

Example 1: The owner of a retail appliance store hires someone to repair a refrigerator that the owner is going to resell in the store. The owner can purchase the repair service tax free because the store regularly sells refrigerators and tax will be collected when it is sold to a final consumer.

Example 2: Chris operates a retail farm equipment dealership and accepts a motor boat as partial payment for a piece of farm equipment. Chris then contracts with Don to repair the motor on the boat. After Don repairs the boat, Chris sells the boat at his dealership. Chris does not normally sell motor boats in the regular course of business. Therefore, the service performed by Don for Chris is taxable.

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REVIEW OF STATUTORY SALES AND USE TAX EXEMPTIONS

The Code of Iowa and the Iowa Department of Revenue are the primary sources used in compilation of this Appendix B. Dates in parentheses indicate the initial date of enactment of the exemption. Many exemptions have been amended subsequent to the year of initial enactment. The appendix does not indicate dates of all amendments, but if more than one year is listed, the second year indicates the date of enactment of a major, recent amendment to an exemption. This is not meant to be an exhaustive list of exemptions.

AGRICULTURE

- Agricultural breeding livestock and domesticated fowl. 423.3(3) (1985)
- Commercial fertilizer. 423.3(4) (1937)
- Materials including agricultural limestone used to control disease, weeds, or insects or to promote the health of plants or livestock for market, including food and medication. 423.3(5)(a) (1957)
- Adjuvants, surfactants, and like chemicals used in agriculture production. 423.3(5)(a) (1997)
- Fuel consumed in implements of husbandry used for agricultural production. 423.3(6) (1957)
- Fuel used in grain drying. 423.3(6) (1969)
- Fuel used to provide heating or cooling to livestock buildings. Amended to include greenhouses. 423.3(6) (1985)
- Sale or rental of certain farm machinery and equipment, which is a self-propelled implement or attached to it, including replacement parts and grain dryers. (Refund between July 1, 1985, and June 30, 1987, then exempted.) 423.3(8) (1985)
- Specified materials used for bedding in the production of agricultural livestock and fowl. 423.3(9) (1985, 1992)
- Agricultural aerial application services. 423.3(7) (1985)
- Agricultural drain tile and the installation thereof. (1987) Amended in 2005 to include tile intakes, outlet pipes, water and erosion control structures, and tile fittings. 423.3(5) Retroactive to 1998.
- Gas, electricity, water, and heat used in all implements of husbandry engaged in agricultural production. 423.3(10) (1987)
- Goods used in repairs to farm implements and the purchase or rental of farm machinery, implements, and equipment, and their replacement parts, other than self-propelled

implements or attachments, used in livestock and dairy production. (Refund from July 1, 1987, to July 1, 1988, then it became exempt.) Repair labor lost its exemption on July 1, 1988. 423.2(6), 423.3(11) (1987, 1988)

- The sales of auger systems, curtains and curtain systems, drip systems, fan and fan systems, shutters, inlets and shutter or inlet systems, and refrigerators used for agricultural purposes. 423.3(11) (2006, with refund from January 1, 1992, to June 2, 2006, then exempt.)
- Sale or rental of irrigation equipment used in farming operations. 423.3(12) (1989)
- Laboratory tests on animals. 423.2(6) (1991)
- Sale of draft horses. 423.3(14) (1978)
- Self-propelled implements, implements attached to self-propelled implements, and auxiliary attachments which improve the performance, safety, operation, or efficiency of farm machinery or equipment. 423.3(8) (1995)
- Property which is a container, label, carton, pallet, packing case, wrapping, baling wire, twine, bag, bottle, or similar article sold for use in agricultural, livestock, or dairy production. 423.3(15) (1996)
- Sale of livestock ear tags by 501(c) (6) nonprofit organizations that will use the proceeds for bovine research programs approved by the nonprofit organization. 423.3(30) (2000)
- The sale or rental of irrigation equipment to a contractor or farmer, whether installed above or below ground, if the equipment is primarily for use in agricultural operations. 423.3(13) (2001)
- The sales of feed, feed supplements, and additives when used for consumption by farm deer (which includes elk) or bison. 423.3(16) (2002). The definition of farm deer was expanded to include whitetail and mule deer other than free-ranging whitetail and mule deer. 423.1(16) (2003)

BUSINESS AND MANUFACTURING

- Sales of tangible personal property purchased for resale. 423.3(2) (1934)
- Resale of taxable services or resale of tangible personal property in connection with a taxable service. 423.3(2) (1969)
- Sales of tangible personal property which by means of fabrication, compounding, manufacturing, or germination become an integral part of other tangible personal property ultimately sold at retail. 423.3(51) (1934)
- Fuel used to create power or steam to process goods. 423.3(50) (1937)
- Fuel used to generate electric current. 423.3(50), (51) (1937)

- Fuel used to create heat to process goods. 423.3(50) (1939)
- Electricity or steam used in processing tangible personal property. 423.3(50) (1939)
- Chemicals, solvents, sorbents, or reagents used, consumed, dissipated, or depleted when used in processing. 423.3(51) (1963)
- Taxable services performed for an employer by an employee. 423.1(50) (1967)
- Taxable services when purchased and used in the processing of tangible personal property. 423.3(50) (1969)
- Property or services performed on property delivered into interstate commerce. 423.3(43) (1969)
- Services performed on or in connection with new construction, reconstruction, alteration, or remodeling of a building or structure. 423.3(37) (1969)
- Advertising materials which are purchased outside Iowa, delivered into Iowa, and later shipped into interstate commerce. (Use tax only.) 423.3(42), 423.6(7) (1969)
- Sales of advertising materials (including paper) to any person in Iowa, if the material is sent outside Iowa and used outside of Iowa. 423.3(42) (1990) (sales tax)
- Property, parts, and materials used as railroad rolling stock. 423.3(71) (1971)
- Purchase of vehicles except those designed for carrying passengers when purchased for lease outside Iowa. 423.6(8) (1978 retroactive to 1973)
- Purchase of property to be used in the production of vehicles which are leased outside Iowa. 423.6(9) (1978 retroactive to 1973)
- Tangible personal property purchased and used for leasing. 423.3(2) (1978)
- Envelopes used for advertising. 423.3(55) (1979)
- Containers, labels, cartons, and materials used for packaging products to be sold at retail. 423.3(45) (1979)
- Containers and similar items sold to retailers or manufacturers for facilitating transportation of the tangible personal property. 423.3(45) (1988)
- Vehicles subject to registration for which the title is transferred when the business structure changes. 423.6(10) (1979). Amended to allow for exempt transfers when the change in the business structure is from or to a limited liability company. (2001)
- Chemicals used in the production of free newspapers. 423.3(51) (1980)

- Services used in processing, repairing, or reconditioning tangible personal property normally sold in a retailer's regular course of business. 423.1(51) (1981)
- Services of a private employment agency where the employee's principal place of employment is outside the state. 423.2(6) (1981)
- Traded property used in the remanufacturing of a like item. 423.3(59) (1983)
- Processing exemption extended to services of vulcanizing, recapping, or retreading and printing, binding, engraving, photography, or retouching services. 423.2(1)(a) (1984)
- Sale or rental of industrial machinery, equipment, certain computers, and replacement parts, and pollution control equipment. Refund July 1, 1985, to July 1, 1987, then exempted. Also applies to computers for insurance companies, financial institutions, and commercial enterprises. 423.3(47) (1985)
- Design and installation of new industrial machinery and equipment including electrical and electronic installation. 423.3(48) (1985)
- Rental of motion picture films, video and audio tapes, discs, photos, copy, and scripts for the motion picture and broadcasting industries if rented for subsequent viewing or broadcast. 423.3(41) (1985) Retroactive to July 1, 1984.
- Purchase of motion picture films, video and audio tapes, discs, and records by persons in the business of leasing, renting, or selling the same. Retroactive to July 1, 1984. 423.3(2) (1989)
- Special fuel used in watercraft for commercial purposes on rivers bordering Iowa. 423.3(72) (1985)
- Sales of automotive fluids sold to car dealers and retailers performing taxable services. Retroactive to January 1, 1979. 423.3(40) (1986)
- Ships, barges, and waterborne vehicles used in the transportation of property or cargo for hire on rivers bordering Iowa and materials or parts associated with said vehicles. 423.6(15) (1986)
- Tangible personal property withdrawn from inventory by a contractor/manufacturer as building material for use in an out-of-state construction project. 423.2(1)(b) (1987)
- Chemicals, containers, and bags used by dry cleaners. 423.3(45) (1987)
- Prizes to be awarded in games of skill, chance, raffles, and bingo. 423.3(63) (1987)
- Aircraft used in a scheduled interstate Federal Aviation Administration certificated air carrier operation. 423.3(74) 1988)

- Component parts, repair, or replacement parts and all services used for aircraft performed on aircraft used in a scheduled interstate Federal Aviation Administration certificated air carrier operation. 423.3(75) (1995)
- Component parts, repair, or replacement parts on aircraft used in unscheduled interstate Federal Aviation Administration certificated air carrier operations. 423.3(76) (1998)
- Machinery and equipment used in connection with the recycling or reprocessing of waste products. 423.3(47) (1989)
- Vehicles operated but not registered under Chapter 326 and used in interstate commerce. 423.6(12) (1990)
- Expanded processing exemption extended to the food products industry to include sanitation, quality control, packaging, storage, and movement within the factory. 423.3(49) (1985)
- Carbon dioxide used in the manufacture of marketable food products for human consumption. 423.3(49) (1990) Retroactive to July 1, 1985.
- Lease or rental of tangible personal property used by a manufacturer of food products for human consumption. 423.3(49) (2005) Retroactive to July 2004.
- Manufacturers of motor vehicles who reimburse purchases under the lemon law (refund of use tax). 322G.4 (1991)
- Vehicles subject to registration purchased for rental if actually rented for periods of less than 60 days and if they are subject to the rental tax. 423.6(16) (1992)
- All materials used to manufacture or construct wind energy conversion property. 423.3(54) (1993)
- Sale of printing supplies to printers and publishers of more than 115 individually named items used to print a finished product (or used to complete finished packaging materials used to package a product for ultimate sale at retail). 423.3(46) (1995)
- Services rendered, furnished, or performed by notification centers as defined in Code section 480.3. 423.3(24) (1995)
- Residential optional service or warranty contracts regulated under Chapter 523C. 423.2(1)(a) (1995)
- Computers sold to insurers or insurance producers licensed under Chapter 522B. 423.3(47)(a)
- Vehicles subject to registration purchased for leasing for one year or more if lease receipts are taxable under section 423.27. 423.6(18) (1996)

- The definition of processing is expanded to include nearly all aspects of manufacturing beginning with the receipt or production of new materials and ending with the manufacturer's delivery for shipment or transfer of the finished product. Electricity used in the expanded areas of processing is exempt from tax. Replacement parts are not required to be depreciable for income tax to be exempt from tax. 423.3(47) (1997)

- Subsequent to the extractive process of quarrying or mining, certain activities are considered manufacturing. 423.3(47)(d) (1998)

- Certain tax incentives provided to businesses that locate or expand within an enterprise zone. 15E.191 through 15E.197 (1997)

- Sale to water companies of electricity used solely for pumping water from wells or rivers. 423.3(53) (1998)

- Refund on building supplies and equipment used in the performance of a construction contract for rural water districts organized under Chapter 504 or 504A. 357A.15 (1998)

- Nonprofit hospitals on all purchases of tangible personal property and services. 423.3(27)(1998)

- Sale of aircraft to an aircraft dealer who rents or leases the aircraft if the aircraft remains in inventory and is for sale at all times. 423.3(77) (1998)

- Vehicles that meet the requirement that 25 percent of miles operated all in states other than Iowa for the first four years retain the exemption until the vehicle is sold. 423.6(12) (1998)

- Computer software maintenance or support contracts with no separately stated fee for taxable and nontaxable services are taxed on 50 percent of the gross receipts. 423.2(1)(a) (1998)

- Sales of argon gas and other similar gases used in the manufacturing process. 423.3(52) (1999) Retroactive to January 1, 1991.

- Sale or rental of tangible personal property to, or services performed for, free standing nonprofit hospice facilities. 423.3(28) (1999)

- Sales of building materials, supplies, and equipment to not-for-profit water districts organized under Chapter 504 or 504A for use in the construction of their facilities. 357A.15, 423.3(38) (1999)

- Delivery charges for the delivery of electricity or natural gas when the sale of the electricity or natural gas is exempt under Chapter 423. 423.3(69) (2001)

- A contractor can purchase building materials from a retailer of such materials exempt from Iowa sales and use tax if the contractor is building a project for a designated exempt entity. To purchase the materials for the project exempt from tax, the contractor must receive an authorization letter and an exemption certificate from the designated exempt entity

specifying the project and that the materials will only be used for that project. 423.3(80), 423.4(1), (6) (2002)

- If the substance of a transaction is delivered to the purchaser digitally, electronically, or utilizing cable or by radio waves, microwaves, satellites, or fiber optics, the gross receipts from the transaction are not subject to Iowa sales or use tax. 423.3(67) (2002)

- The gross receipts from transferring vehicles subject to registration from one corporation to another corporation if both of the corporations involved in the transfers are primarily engaged in the business of leasing vehicles subject to registration and both of the corporations are part of the same controlled group for federal income tax purposes. 423.6(11) (2003)

- Eligible businesses approved under NJIP, EZ, or NCIP are entitled to refunds of sales tax or use tax, but not local option tax, paid on racks, shelving, and conveyor equipment used in a warehouse or distribution center. Eligible businesses under NJIP and NCIP who lease racks, shelving, and conveyor equipment from a third-party developer will receive a corporate income tax credit equal to the sales and use tax paid by the developer. Refund and tax credit certificates available for this type of equipment cannot exceed $500,000 in a fiscal year. 15.331A, 15.331C, 15E.193B, and 15E.196 (2004) In 2005, HQJCP replaced NJIP and NCIP.

- In addition to other exemptions given to foundries, the sales price of core-making, mold-making, and sand-handling machinery, including replacement parts is exempt from Iowa sales and use tax. In addition, sales price from sales of fuel used in creating heat, power, or steam or for generating electric current, or from sale of electricity, consumed by core-making, mold-making, and sand-handling machinery and equipment used directly and primarily in the mold-making process by a foundry is exempt from tax. The sales price from furnishing of the design and installation, including electrical and electronic installation of core-making, mold-making and sand-handling machinery and equipment used directly and primarily in the mold-making process by a foundry is exempt. 423.3(82) (2003, 2004)

- The leasing or rental of self-propelled building equipment, self-constructed cranes, pile drivers, structural concrete forms, regular and motorized scaffolding, generators, or attachments customarily drawn or attached to self-propelled building equipment, self-constructed cranes, pile drivers, structural concrete forms, regular and motorized scaffolding and generators, including auxiliary attachments which improve the performance, safety, operations, or efficiency of the equipment and replacement parts and are directly and primarily used by contractors, subcontractors, and builders for new constructions, reconstruction, alterations, expansions, or remodeling of real property or structures. 423.3(2), (37) (2004, 2005) Retroactive to July 1, 2004, to include all machinery, equipment, and replacement parts.

- The sale of self-propelled building equipment, pile drivers, motorized scaffolding, or attachments customarily drawn or attached to self-propelled building equipment, pile drivers, and motorized scaffolding, including auxiliary attachments which improve the performance, safety, operation, or efficiency of the equipment, and replacement parts, and

are directly and primarily used by contractors, subcontractors, and builders for new construction, reconstruction, alterations, expansion, or remodeling of real property or structures. 423.3(85) Separately taxed under chapter 423D (2005).

- Exempted from the purchase price of a replacement motor vehicle owned by a motor vehicle dealer licensed under Chapter 322 which is being registered by that dealer and is not otherwise exempt from tax is the fair market value of a replaced motor vehicle if certain conditions are met. 423.6(25) (2006)
- Service fees imposed by a financial institution if the charge is to a noncustomer of the financial institution imposed for point of sale, service charge, or access to an automated teller machine. 423.3(83) (2003)
- The amount of any trade discount given or allowed by a manufacturer, distributor, or wholesaler to a retailer or by a manufacturer or distributor to a wholesaler and payments made by a manufacturer, distributor, or wholesaler directly to a retailer or by a manufacturer or distributor to a wholesaler to reduce the sales price of the manufacturer's, distributor's, or wholesaler's product or to promote the sale or recognition of the manufacturer's, distributor's, or wholesaler's product is not included in the taxable gross receipts or in any taxable sales price if excessive sales tax is not collected from the purchaser. 423.1(47)(b) (Effective April 14, 2004, and retroactive to January 1, 1997)

ITEMS OR SERVICES SPECIFICALLY EXEMPTED

- Licensed massage therapist. 423.2(6) (1998)
- Sales price of delivery charges. 423.3(70) (1937)
- Sales of newspapers, free newspapers, or shoppers guides and the printing and publishing thereof. 423.3(55) (1969)
- Motor fuel and special fuel where fuel tax has been paid and not refunded. Includes fuel used in watercraft. 423.3(56) (1973)
- Flying services of commercial aerial charter and transportation flights. 423.3(61) (1974)
- Food for human consumption. 423.3(57), (58) (1974)
- Sale of draft horses. 423.3(14) (1978)
- Laboratory tests on humans. 423.2(6) (1979)
- Certain motor vehicles, including semitrailers, used in interstate commerce which are registered for a gross weight of 13 tons or more and incur at least 25 percent of their mileage outside Iowa. 423.6(12) (1985)
- Mobile homes for which tax has been previously paid. Tax is not due on 40 percent of the purchase price of a new mobile home. 423.6(13), (14) (1985)
- Forty percent of the cost of a modular home. 423.3(64) (1988)
- Motor vehicles rented or leased longer than 60 days. 423.2(6), (1986)
- Raffle tickets sold at fair-sponsored raffles. 423.3(62) (1986)
- Fuel used in aircraft where fuel tax has been paid. 423.3(56) (1988)
- Prescription drugs, including oxygen and insulin and diabetic supplies. 423.3(60) (1974, 1975)
- Sale or rental of prosthetic, orthotic, and orthopedic devices. 423.3(60) (1974, 1978)

- Exemptions of "durable medical equipment," "mobility enhancing equipment," and "prosthetic devices" are listed separately from "medical devices," and those terms are defined as they are defined in the Streamlined Sales Tax Agreement. Therefore, the term "medical devices" is a catchall phrase for medical exemptions not defined by the Streamlined Sales Tax Agreement. 423.3(60) (2005)
- Rental of prescription devices. Any drug, device, equipment, or supplies covered by Title 18 or Title 19 of the federal Social Security Act. Oxygen equipment, ostomy, urological, and tracheostomy devices. 423.3(60) (1992) Retroactive to January 1, 1987.
- The definition of exempt medical devices was expanded to include hypodermic syringes and needles, anesthesia trays, biopsy trays and biopsy needles, cannula systems, catheter trays and invasive catheters, dialyzers, drug infusion devices, fistula sets, hemodialysis devices, insulin infusion devices, interocular lenses, irrigation solutions, intravenous administering sets, solutions and stopcocks, myelogram trays, nebulizers, small vein infusions kit, spinal puncture trays, transfusion sets, and venous blood sets. 423.3(60) (1994) Retroactive to July 1, 1993.
- Purchases of items of clothing or footwear designed to be worn on or about the human body are exempt from sales and use tax if the sale price of an item is less than one hundred dollars and the sale of the item takes place during the period beginning at 12:01 a.m. on the first Friday in August and ending at midnight on the following Saturday. Sales of "accessories" are not exempt. 423.3(68) (2000)
- The transfer of a vehicle from a purchaser to a manufacturer pursuant to Code chapter 322G (Iowa's lemon law provisions) is not considered a "use" and is therefore exempt from tax on the registration of the vehicle by the manufacturer. 322G.12 (2000)
- Transactions where the substance is delivered to the purchaser digitally, electronically, or utilizing cable, or by radio waves, microwaves, satellites, or fiber optics. 423.3(67) (May 15, 2000, retroactive to March 15, 1995)
- The sale or rental of "information services". 423.3(66) (May 15, 2000, retroactive to March 15, 1995)
- The gross receipts from sales or use of tangible personal property or the performance of services used in the fulfillment of a written construction contract with a nonprofit hospital licensed under Code chapter 135B. 423.3(29) (effective May 19, 2000, retroactive to July 1, 1998)
- Director may abate unpaid sales or use tax owed by a retailer if the retailer's failure to collect the tax results from erroneous written advice issued to the retailer by the Department. The erroneous advice must have been directed to the retailer requesting the advice. 421.60(2)(m) (2000)
- Receipts from rents, royalties, copyright, and license fees associated with the rental of tangible personal property to be part of the "sales price" from the sale of tangible personal property and not part of the sales price from the furnishing of a taxable service. 423.1(47)(d), 423,2(6) (2004)
- Lottery tickets and shares pursuant to Code chapter 99G. 423.3(81) (2003)
- Services to repair a defect in a vessel licensed by the U.S. Coast Guard which is engaged in interstate commerce and is in the waters bordering the state. 423.3(86) (2005)

STREAMLINED SALES TAX (SST) EXEMPTIONS

The 2003 General Assembly implemented uniform sales and use tax laws in Iowa that were effective July 1, 2004. The following information highlights the changes based on SST:

FOOD

- Bottled water — Prior to July 1, 2004, the sale of bottled water was subject to sales and use tax. Effective July 1, 2004, the sale of bottled water is exempt from Iowa sales and use tax unless the water contains a flavoring or sweetener. 423.3(57)

- Candy — Prior to July 1, 2004, the sale of candy was subject to Iowa sales and use tax. Effective July 1, 2004, the sale of candy remains taxable unless the candy contains flour. If the candy contains flour, then the sale of the candy is exempt from tax. 423.3(57)(b)

- Chewing gum — Prior to July 1, 2004, the sale of chewing gum was exempt from Iowa sales and use tax. Effective July 1, 2004, the sale of chewing gum is subject to Iowa sales and use tax. 423.3(57)

- Soft drinks/fruit and vegetable juice — Prior to July 1, 2004, the sale of these beverages were subject to Iowa sales and use tax unless the beverage contains fruit or vegetable juice with a content of 15% or more. Effective July 1, 2004, the sale of these beverages is subject to Iowa sales and use tax unless the beverage contains more than 50% fruit or vegetable juice. 423.3(57)(g)

- Vegetable seeds and plants and fruit trees — Prior to July 1, 2004, the sale of these items was exempt from Iowa sales and use tax. Effective July 1, 2004, the sales of these items are taxable, unless the produce from the item is for resale.

DELIVERY

- Prior to July 1, 2004, if local option taxes are imposed on sales, the rate of tax to be imposed was based on the jurisdiction of where ownership of the tangible personal property occurred (seller's location, purchaser's location, F.O.B. terms, docks of the common carrier) or where the services were rendered, furnished, or performed. Effective July 1, 2004, if local option taxes are imposed on sales, the rate of tax imposed is based on the jurisdiction of the destination of the property. 423.15

RENTAL OR LEASE

- Purchases for lease or rental — Prior to July 1, 2004, tangible personal property that was purchased for lease or rental was subject to tax if the term of the rental was for a period of less than five months. Effective July 1, 2004, rental or lease of tangible personal property is treated as a sale. As a result, any item purchased for lease or rental will be exempt from sales tax as a purchase for resale. Sellers should obtain an exemption certificate from the purchasers. 423.3(2), 423.45

- Taxation of leased or rented property — Prior to July 1, 2004, Iowa imposed Iowa sales tax on all lease or rental payments for the term of the lease or rental agreement even if the property is removed from Iowa. Iowa local option taxes are imposed based on the location

in which the agreement is entered into. Iowa use tax is imposed on property entering Iowa even if it was leased or rented outside of Iowa. In some instances, a credit for tax paid to another state is given. Effective July 1, 2004, sales tax and local option taxes on leased or rented property (other than vehicles subject to registration) is imposed in the jurisdiction where the property is located. If the property is moved to another jurisdiction, the rate of tax may change and the source of taxation may possibly change too. 423.15

MISCELLANEOUS EXEMPTIONS AND PROVISIONS

- Transactions the state is prohibited from taxing by federal law. 423.3(1) (1934)
- Casual sales. 423.3(39) (1963)
- Discounts. 423.1(47) (1970)
- Trade of property including vehicles for equal or less value. 423.1(47), 423.3(59), 423.6(24) (1982)
- Refund of construction materials used in a project that will become public property or devoted to educational use. 423.4(1), (2) (1983) Retroactive to November 2, 1982.
- Casual sale exemption is expanded to taxable services and to the bulk sales of businesses. 423.3(39) (1985)
- Use tax on property or taxable services (except vehicles) only if Iowa sales tax has been paid. 423.6(1) (1986)
- Rebates applied to the purchase of vehicles subject to registration. 423.6(24) (1988)
- E911 emergency telephone service surcharge. 423.3(69A) (1988)
- Sales of goods and utilities to other states or their political subdivisions if they provide a similar exemption to Iowa and its political subdivisions. 423.3(36) (1990)
- Entry fees paid to participate in any game or form of amusement unless there is a taxable admission to the same event. 423.2(3) (1993)
- Wine shipped into this state to a person 21 years of age or older for consumption. There is a limit of eighteen liters per month. 423.3(44) (1996)
- Gross receipts from online computer service that provides or enables computer access by multiple users to the Internet. 423.3(65) (1999)
- One-percent phase-out of state sales tax effective January 1, 2002, on the sale of metered electricity, metered natural gas, fuels, and heating oils for residential customers with full phase-out occurring on January 1, 2006. 423.3(84) (2001, 2004)
- Casual sales exemption does not apply to vehicles subject to registration, aircraft, or commercial or pleasure craft or water vessels. 423.3(39) (2005)

- The owner or operator of an automobile racetrack facility may apply to the department for a rebate of sales tax imposed and collected by retailers upon sales of any goods, wares, merchandise, or services furnished to purchasers at the automobile racetrack facility. The rebate is available until $12.5 million is rebated, January 1, 2016, or until change in ownership of racetrack, whichever occurs first. 423.4(5)(2005)

- A person in possession of a renewable energy tax credit certificate issued pursuant to Code chapter 476C may apply to the director for refund of the amount of sales or use tax imposed and paid upon purchases made by the applicant. 423.4(4) (2005)

- Sales of solar energy equipment used to transform such energy to storage point or point of use. 423.3(90) (2006)

- Sales of coins, currency, or bullion. 423.3(91) (2006)

- Phase-out of tax on sale or rental of central office equipment and transmission equipment used for telecommunications purposes. The phase-out is by means of a refund of taxes paid beginning at one-seventh for FY 2007 and increasing by one-seventh until total exemption occurs beginning July 1, 2012. 423.3(47A) (2006)

- Casual sales exemption applies to the performing of recurring services if the owner of the business is the only person performing the service, the owner is a full-time student, and the total gross receipts in a calendar year does not exceed $5,000. 423.3(39)(c) (2006)

- A person in possession of a soy-based transformer fluid tax credit certificate issued pursuant to Code chapter 476D may apply to the director for refund of the amount of sales or use tax imposed and paid upon purchases made by the applicant. 423.4(7) (2006)

ORGANIZATIONS RECEIVING EXEMPTIONS OR BENEFITS FROM EXEMPTIONS

- Sales by the Department of Cultural Affairs on state owned property. 423.3(34) (1982)
- Sales from educational, religious, or charitable activities where the entire proceeds are spent for educational, religious, or charitable purposes. (1934) Amended to require the organization claiming exemption to be an IRC 501(c) (3) and also provided a statutory definition for "charitable." 423.3(78) (2001)

- Tax-certifying or tax-levying bodies of the state, with specified exceptions. 423.3(31) (1934)

- Goods and services sold to regional transit systems. 423.3(31) (1990)

- Purchases by municipal solid waste facilities. 423.3(31) (1978)

- Refunds of sales tax paid by relief agencies. 423.4(3) (1934)

- Refunds of sales tax on construction projects to government agencies. 423.4(1), (2) (1953) Amended to allow preconstruction exemption. 423.3(80) (2003)

- Sales to nonprofit educational institutions used for educational purposes. (1967) Amended to require that an institution must primarily be an educational institution to qualify for exemption. 423.3(17)(2001)
- Admissions to amusements, fairs, and athletic events of elementary and secondary educational institutions. 423.2(3) (1978)
- Sales by cities and counties except utility services and fees for participation in athletic sports. 423.32 (1979)
- Sales and rentals to home and community-based services providers certified to offer Medicaid waiver services by the Department of Human Services. 423.3(18) (2006)
- Sales and rentals to certain residential care facilities, intermediate care facilities, rehabilitation facilities, community mental health centers, community health centers, and migrant health centers. 423.3(18) (1985, 1988)
- Child foster care residential facilities licensed by the Department of Human Services other than those maintained by individuals. 423.3(18) (1989)
- Items purchased by nonprofit organizations organized for the purpose of lending tangible personal property to the general public. 423.3(19) (1988)
- Sales and rentals to nonprofit legal aid organizations. 423.3(20) (1988)
- Refund of sales tax on construction projects for nonprofit private museums. 423.4(1) (1990)
- Sales of goods and services to nonprofit museums if used for educational, scientific, historical, or aesthetic purposes. 423.3(21) (1990)
- Gross receipts from sales or services by the state fair organized under Code chapter 173 or a fair society organized under Code chapter 174. 423.3(23), (35) (1996)
- Sales of food and beverages by nonprofit organizations who promote food or beverage products grown, produced, or raised in Iowa. 423.3(25) (1998)
- Sales of tangible personal property or services to nonprofit organ procurement organizations. 423.3(26) (1998)
- Sales of goods, wares, or merchandise or services rendered, furnished, or performed to a nonprofit private art center which will be used in the operation of the art center. 423.3(22) (2001)
- Sales of mementos occurring on state property, and sales of all other items, by the Legislative Services Agency. 423.3(33) (2002, 2004)

- Purchases of tangible personal property and enumerated services by a community action agency that are to be used for the purpose of the community action agency. 423.3(79) (2002)

- Sales of toys to exempt organization under IRC § 501 that purchases the toys with donations collected to be distributed to children at no cost. 423.3(87) (2005)

- The sale of building materials, supplies, goods, wares, or merchandise sold to a nonprofit Iowa affiliate of a nonprofit international organization whose primary activity is the promotion of the construction, remodeling, or rehabilitation of one-family or two-family dwellings for use by low-income families and where the building materials, supplies, goods, wares, or merchandise are used in the construction, remodeling, or rehabilitation of such dwellings. 423.3(88) (2005) If tax has been paid, a refund is authorized. 423.4(1) (2005)

- The sales of all goods, wares, or merchandise sold, or of services furnished, which are used in the fulfillment of a written construction contract for the original construction of a building or structure to be used as a collaborative educational facility. 423.3(89), 423.4(6), with refund from April 1, 2003, to June 30, 2005. (2006)

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